



Herding and Contrarian Behavior in Financial Markets: An Internet Experiment

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Article Information

Abstract

We report results of an Internet experiment designed to test the theory of informational cascades in financial markets (Christopher Avery and Peter Zemsky, 1998). More than 6,400 subjects, including a subsample of 267 consultants from an international consulting firm, participated in the experiment. We find that the presence of a flexible market price prevents herding. The presence of contrarian behavior distorts prices, however, and even after 20 decisions, convergence to the fundamental value is rare. We also report some interesting differences with respect to subjects' fields of study. Reassuringly, the behavior of the consultants turns out to be not significantly different from that of the remaining subjects.

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Additional Materials

[Replication Package \(1.09 MB\)](#)

[Link to Appendix \(136.63 KB\)](#)

JEL Classification

D83 Search; Learning; Information and Knowledge; Communication; Belief

G10 General Financial Markets: General (includes Measurement and Data)

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