

Subjective Probabilities in Household Surveys

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Abstract

Subjective probabilities are now collected on a number of large household surveys with the objective of providing data to better understand intertemporal decision making. Comparison of subjective probabilities with actual outcomes shows that the probabilities have considerable predictive power in situations where individuals have considerable private information, such as survival and retirement. In contrast, the subjective probability of a stock market gain varies greatly across individuals even though no one has private information and the outcome is the same for everyone. An explanation is that there is considerable variation in accessing and processing information. Further, the subjective probability of a stock market gain is considerably lower than historical averages, providing an explanation for the relatively low frequency of stock holding. An important research objective will be to understand how individuals form their subjective probabilities.

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