Forecasting and stock market participation: An experiment

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Abstract

We conduct a laboratory experiment to study individual market entry and exit decisions under varying levels of uncertainty. In our environment, when a player enters the market, she selects a risky strategy. The information about the risky payoff is available only when this option is exercised in the baseline treatment. To control for possible exploration effects, we include a counterfactual treatment with information on forgone payoffs. We find that subjects exit the market at significantly higher rates when counterfactual information is provided.

Keywords: forecasting experiment, uncertainty, investment decisions, stock market participation

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