The Chooser's Curse and its Implications

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We study a fundamental task combination: a decision maker must choose an alternative, make a forecast for that alternative, and make an investment decision in that alternative. Through behavioral models and laboratory experiments, we show how adding unbiased random noise to the process leads to a downstream systematic bias of overinvestment. This bias arises due to the way that random noise is filtered through the sequence of linked decisions and statistical naivety on the part of the decision-maker. We then examine the implications of this dynamic for (i) pattern-seeking cognition and (ii) idealized beliefs about the path not taken.