

Book Errata for Foundations of Behavioral Economic Analysis, OUP, 2016.

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Abstract

This file contains the book errata for Foundations of Behavioral Economic Analysis (FBEA), mainly for the first 13 chapters at this stage. I shall strive to keep updating this file and put the updated file on my website from time to time. There is a possibility that we shall incorporate these corrections if FBEA is reprinted in the future. The IMPORTANT NEWS is that we are splitting FBEA into 7 separate volumes. These new volumes will incorporate all these corrections, clarify, and edit further the material in FBEA (these edits and clarifications are not present in this Errata file), and bring some of the material up to date in a separate commentary at the end of each volume as a guide to further reading. The first three volume are expected to be out in February 2019, and the rest to follow later in the year. I believe that the new volumes represent significant value added over FBEA and are a must-have for those with an interest in this subject.

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1 Corrections to Book Introduction

Page 10, Section 3, line 4, replace "Richard Chamberlain" by "Edward H. Chamberlin"

Page 28, rewrite footnote 20 as: "For readers who are itching for more information at this stage, before they get to Chapter 2, $\pi_n = w(p_n)$ and $\pi_i = w(\sum_{j=i}^n p_j) - w(\sum_{j=i+1}^n p_j)$ for $i = 1, 2, \dots, n - 1$."

Page 51, 9 lines up from the bottom, "Figure 8" should be "Figure 7".

Page 31, second paragraph, last line: replace "small samples (see Section 5.5 below)" with "small samples from memory/experience (see Section 5.5 below)"

Page 49, para 4, last line: replace "lowest price" with "lowest quality".

Page 61, Question 21, first line: Replace "larger" by "smaller".

2 Corrections to Part 1

2.1 Corrections to Chapter 1

Page 84: First line in Section 1.2, change $x_1 \leq x_2 \leq \dots \leq x_n$ to $x_1 < x_2 < \dots < x_n$.

First and second lines below Proposition 1.3: Proposition 1.18 in these two lines should be Proposition 1.3.

Page 86, Proposition 1.1c, delete "for all $p \in [0, 1]$,"

Page 91, one line before (1.10), replace "lotteries" by "Savage acts".

Page 94, first line below (1.17), missing \mathbb{R} (it should read $a, b \in \mathbb{R}$).

Page 95, equation (1.21) delete ; $i = 1, 2$.

Page 96, Example 1.2. Midway through the page the equation following the line "Dividing both sides by 4, we get": U should be u .

Definition 1.14, page 97, replace $\mu \in [0, 1]$ by $\mu \in (0, 1)$ and replace $z < Z$ by $0 < z < Z$. Then we do not need the subsequent condition $\mu > 0$.

Page 98, Definition 1.15, first line, replace $\mu \in [0, 1]$ by $\mu \in (0, 1)$.

Page 99, Equation (1.34), the last term should be $b_4 = (1 - \mu p, \mu p)$ instead of $b_4 = (1 - \mu P, \mu P)$.

Page 99, last paragraph, third line, "lottery" should be "lotteries".

Page 101, four lines above Section 1.5.3: Replace "...and it is able to explain..." by "is a necessary condition to explain..."

Page 104, Section 1.5.4, second para, line 2, In Lottery L_1 , the last semi-colon should be a comma.

2.2 Corrections to Chapter 2

Page 152, 3rd paragraph in Section 2.7, replace $r \in X^m$ by $r \in F$.

Page 169: Two lines above (2.97) should be: "Let \hat{e}_- be the optimal effort level..."

Page 115, Midway through the page, last line of the paragraph: Replace Part 4 with Part 3.

Page 123: There is an extra right bracket in the second line of Example 2.6(b).

Page 129: Second line. Definition 2.13 should be Definition 1.13.

Page 136, Example 2.13: Full stop missing at the end of the line just after "losses"

Page 148, Section 2.6.1, para 3, lines 2 and 3: Should be $y_i > 0$ and $y_i < 0$. The last sentence in this para 3 should read: Since we have assumed that X is the set of monetary outcomes and the reference point is 0, \succeq corresponds in a natural way with \geq .

Page 149, Delete last line of the proof of Lemma 2.1 (The second inequality...it.)

Page 149, 3rd line up from the bottom: Change the $>$ sign to a $=$ sign.

Page 160 first line after equation (2.69): Delete the redundant "2.22".

Page 165, middle of the page, case C3, all inequalities should be strict ($e_H < e_L < e$). Same correction on page 166, about 2/3 of the way down.

Page 167, line 3, replace (2.90) by (2.92).

Page 175, second line, replace "postive and negative" with "negative and positive".

Page 182, two lines above Figure 2.15, replace "maximizers (Type I)" with "maximizers (Type II)"

Page 184, Section 2.10.3 at the end of the line, after the word "salience" insert "of".

Page 185, fourth line of Example 2.23: The lottery $L_2(z)$ should be

$$L_2(z) = (2400, 0.34; z, 0.66).$$

Page 187, 3 lines above equation (2.120) replace M_i by $M_i \subset \bar{C}$.

Page 193, 3rd para, 3rd line, replace "Definition 2.3.4" by "Example 2.6"

Page 193, Section 2.11.2, end of line 2 replace "low probability anomalies" by "anomalies arising from low probability events"

Page 201, 1 line above equation (2.138) delete the word "interior".

Page 202, Caption for Figure 2.19, line 3: Replace (0.8, 1) and (0.4, 0.5) by (0.8, 1) versus (0.4, 0.5).

Page 203, first sentence after equation (2.143) should be: "Let us compare average consumption under EU and RDU (delay-discounting in each case), i.e., we compare (2.138) and (2.143)."

Page 205, first line, replace " $w(p) \approx \hat{w}(p) = a + bp$." by " $w(p) \approx \hat{w}(p) = a + bp, a > 0, b > 0$."

Page 206, first line after equation (2.154): Replace "(2.154) allows us to" by "We now wish to"

Page 209, last line, replace $\alpha\beta = 1$ by $\alpha = \beta = 1$.

2.3 Corrections to Chapter 3

Page 218, 5 lines up from the bottom, delete the last word in the sentence "respectively".

Page 220, two lines below equation (3.1), replace "value" by "outcome"

Page 221, 8th line in 2nd paragraph, replace "older and more" by "younger or less"

Page 221, para 4, line 1: Replace "to" with "of".

Page 223, first sentence after Definition 3.62 should be: "We use the value function under PT (Definition 2.34) to calculate the relevant expressions for RWTA and RWTP."

Page 225: Footnote 12: Replace "Good B" with "Item B".

Page 228, footnote 16, line 3: insert "we" before "consider".

Page 235, footnote 22, second line, replace "Chapter 1.4" by "Chapter 4".

Page 237, line 4, replace "dropped" by "reduced".

Page 239, first line after (3.13): replace "two identical prospects" by "two independent and identical prospects"

Page 247, last but one paragraph, line 3 replace $p \in [0.01, 0.05]$ by $p \in [0.01, 0.05]$.

Page 249, equation (3.31), replace $V(0)$ by $V(0, 1)$.

Page 252, one line before equation (3.44) "domain of losses" should be "domain of gains".

Page 256, last line, replace β_2 by β_1 .

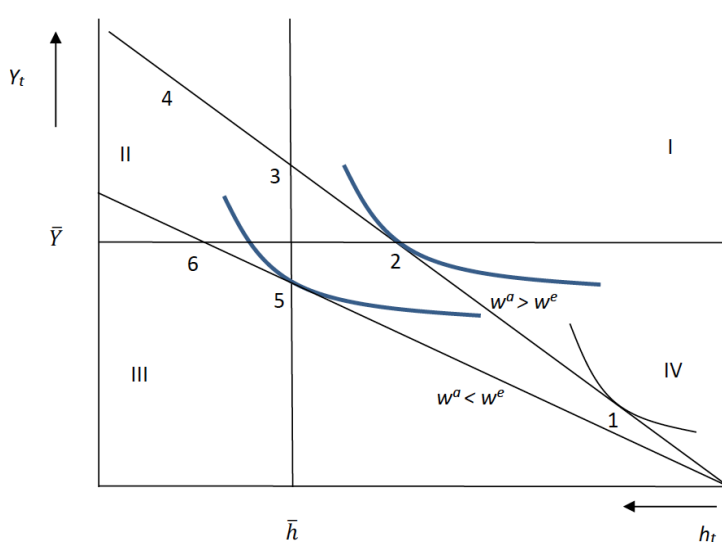


Figure 1: Restating Figure 3.8, pl 262 in Foundations.

Page 258, Table 3.3, first row, set $\lambda = 1$ in the entire first row.

Page 258, 10 lines up from the bottom, "Remark 10" should be "Remark 3.10".

Page 260, two lines above (3.54) replace w^a by w^e .

Page 260, Define the domain of gains for incomes and hours as $Y \geq \bar{Y}$, $h \leq \bar{h}$, respectively (and not $Y > \bar{Y}$, $h < \bar{h}$). Make the same correction in Table 3.4 on Page 261.

Page 261, last paragraph, lines 2 and 5, replace "northeast" by "northwest".

Page 262, first paragraph, replace "PTT" by "PT", the standard abbreviation for prospect theory. Make the same correction in lines 2,3 in the next paragraph.

Page 262. For a clearer version of Figure 3.8 in the book see Figure 1 in this file.

Page 276, first paragraph, last but one sentence should be: "Thus, for $\phi \geq 0$ we have $\lambda \geq \lambda_c$ and $\phi \frac{\partial \Gamma}{\partial \phi} = 0$ implies $\frac{\partial \Gamma}{\partial \phi} = -\Delta w_M = 0$, or $\Delta w_M = 0$."

Page 278, in the middle of the page, replace " $(\lambda > 1)$ " by " $(\lambda > 0)$ "; this is because for (2.77), the weaker restriction $\lambda > 0$ is sufficient to ensure loss aversion. Just one line below this, replace $1 < k \leq n$ by $1 \leq k \leq n$.

Page 280. Last line, equation (3.86) delete "8".

2.4 Corrections to Chapter 4

In the Introduction to Part 2, Page 339, middle of second paragraph, replace "less unfortunate" by "less fortunate".

Page 290, replace the last term in the lottery in the middle of the page from $(1 - \alpha) p_m$ to $(1 - \alpha) q_m$.

Page 293, line 4, replace " $p = 0$ or $p = 2/3$ " by "for any $p \in [0, 2/3]$ ".

Page 294, immediately after equation (4.9) it should read: "where $w(p)$ is a probability weighting function and u is a utility function such that $u(0) = 0$."

Page 298, 8 lines above section 4.3.6, replace " $x \in X$, the set of outcomes" by " x , where x is an act"

Page 37, caption to Figure 4.1, the source should be Abdellaoui, Baillon et al. (2011).

Page 313, Problem 27(a) should be: Show under RDU, with the Prelec function, and $p \rightarrow 0$, optimal $C^* = 0$ or $C^* = L$. Problem 27(c) should be: What is your conjecture of insurance behavior under composite prospect theory (CPT)? Problem 27(d) last line should be: Conjecture if CPT can account for these conflicting findings?.

Page 315, Problem 32: 4 lines above equation (4.27) replace "if a head" by "if the first heads". In the last sentence of Problem 32, delete the word "also".

3 Corrections to Part 2

Page 339, para 2, line 5, replace "unfortunate" by "fortunate".

Page 342, footnote 6 should read: A related concept from biology is that of *reciprocal altruism*. This involves a tendency to reward others in response to their kind behavior, when such net rewards may be expected to be reciprocated in the long-term by others. See, for instance, Axelrod and Hamilton (1981) and Trivers (1971).

3.1 Corrections to Chapter 6

Page 398, line 2 of introduction, replace "social preferences" by "other-regarding preferences".

Page 400, footnote 2, replace "accepts" by "rejects".

Page 403, in Table 6.1, replace Eckel and Gintis (2009) by Eckel and Gintis (2010).

Page 415, Remark 6.1, line 7, replace $p_s < 1$ by $p_l < 1$.

Page 415, just below the only table on the page, replace the first two sentences by the following: "Below income $y_3 = 50$, distribution Q moves some richer individuals to a poorer income level and a fraction 2ε of individuals with income $y_3 = 50$ are distributed equally between the higher income levels of 75 and 100. Using (6.15), a simple calculation shows that an individual with income $y_3 = 50$ prefers the distribution P to the distribution Q ."

Page 422: (1) one line prior to (6.33): Replace (10.18) by (6.30). (2) one line after (6.33): Replace (10.22) by (6.31).

Page 427, 2 lines below Definition 6.13: Replace U by U_i .

Page 445, middle of the page, sentence starting with "Hence, when....": Replace " x_i for player i , expressed in terms of x_j " with " x_A for player A , expressed in terms of x_B ".

3.2 Corrections to Chapter 8

In the proof to part (iv) replace the start of the sentence "Substituting the wage in (iii) contracts on" with "Substituting the optimal wage contract in (iii) into"

Page 485, first line of the proof to Proposition 8.24(iv), replace $c \frac{p_1}{\Delta p} > c$ by $c \frac{p_0}{\Delta p} > c$.

Page 492: Middle of the page, the correct IC and IR conditions (missing costs in the original) are:

$$\bar{u}(a_1) - \bar{u}(a_0) + r\bar{u}(a_1) (\bar{\pi}(a_1) - \bar{\pi}(a_0)) \geq \Delta c \quad (\text{IC})$$

$$\bar{u}(a_1) + r\bar{u}(a_1)\bar{\pi}(a_1) - c_1 \geq 0. \quad (\text{IR})$$

Page 497, 4 lines up from the bottom, replace "the agent and induce" by "the principal and induce."

Page 512, 4 lines from the bottom, replace "in Chapter 12" by "in Chapter 5".

Page 528, line 7, prefix "gross" to the first word on the line "payoffs"

Page 556, line 2, replace "enhaced" with "correlated with".

Page 559, footnote 31, first line, replace "are" with "is".

Page 560, second paragraph towards the end has a typo in the use of brackets. It should read: "When incentives are delayed in the experiments (e.g. students are paid a month later), then the beneficial effects of incentives are substantially curtailed. In actual practice the rewards to education,

such as jobs, salaries, and perks (which are the corresponding incentives in the real world) follow with substantial delay, suggesting that there could be underinvestment in education."

4 Corrections to Part 3

Page 584, line 8, replace "reduces" by "increases"

4.1 Corrections to Chapter 9

In equations (9.1), (9.2), (9.7) (pages 587-89) there is a missing boldface: Replace $\mathbf{c}_0 \in C$ by $\mathbf{c}_0 \in \mathbf{C}$.

Here is a clearer statement of the brief paragraph before equation (9.17) on page 591: The optimal plan, so far, was generated from the perspective of period 0. Now suppose that we allow the individual to reoptimize at some future date $\tau > 0$ but keeping t fixed and letting $t > \tau$. The analogue of condition (??) is given by

Page 592, sentence before equation (9.27) missing "and": Should be "if and only if"

Page 593, first paragraph: Replace $Z \subset \mathbb{R}$ by Z and $\Gamma \subset \mathbb{R}_+$ by Γ .

4.2 Corrections to Chapter 10

Page 612, Proposition 10.6, replace "discount factor" in first line by "discount function".

Page 625, in the text below Definition 10.6, the second sentence is slightly more clearer if written like this: Yet, starting from indifference at \bar{p} , a fall in p below \bar{p} switches preferences towards the lottery with the higher outcome, but an increase in p above \bar{p} switches preferences to the lottery with the lower outcome.

4.3 Corrections to Chapter 11

Page 648, Equation (11.3), the last inequality should be reversed: (b) $\eta < u_1(0, \theta)$.

Page 659, just the last sentence before equation (11.37) should read: "The budget constraint for period $t = 0$ is $c_0 + s_0 = y_0$ and for subsequent periods it is"

Page 662, line 2, replace $\omega_{j=t}$ by ω_t .

Lemma 11.2 on Page 665 is better stated as follows:

Lemma 11.2: Consider the maximization problem

$$\underset{\langle c_1, c_2 \rangle}{Max} u(c_1) + \lambda u(c_2), \lambda \in (0, 1),$$

subject to $c_1 + s = W$ and $c_2 = Rs$, where $R > 0$ and $W > 0$. The intertemporal budget constraint is

$$c_1 + \frac{1}{R}c_2 = W.$$

Under CRRA utility, the optimal solution is $c_1^* = \omega(R, \lambda)W$, where $\omega(R, \lambda) \in (0, 1)$ and $\frac{\partial \omega}{\partial \lambda} < 0$.

Page 667, equation (11.74), second term: Replace R by R^2 . [i.e., it should be $\beta\delta R^2 (1 - \omega_2) [u'(c_3^w) - u'(c_3^r)]$].

Page 667, second sentence below equation (11.74) can now benefit from the restated Lemma 11.2 and rewritten as: "Using a simple extension of Lemma 11.2, the first period savings choice of self 1, $s_1 \in (0, y)$."

Page 675, three lines from the bottom: Replace v with \mathbf{v} . Make the same correction in the first line of page 676.

Page 685, two lines below (11.132), replace "she will" by "he would prefer to" [this is to ensure that we remain gender consistent].

Page 685: Lemma 11.7, second line, it is slightly clearer to write "forecasted and the desired consumption probabilities of self 0" rather than "forecasted and the actual consumption probabilities".

Page 686, inequality (11.136), the RHS: Replace \bar{u} by $\beta\delta\bar{u}$.

5 Corrections for Part 4

5.1 Corrections to Chapter 12

Page 725, 3 lines from the bottom; replace "increases" with "decreases".

Page 736, Example 12.2. 4th sentence, second line should be: For player 2, $x_{2t} = B$ for all $1 \leq t \leq 9$ and $x_{210} = A$.

Page 737, para 3, line 4: replace all-A by all-B.

Replace "an MSE" with "a MSE" throughout this chapter. We normally say "a mixed strategy equilibrium" in economics, however, the proofreader inserted "an mixed strategy equilibrium" throughout and I failed to notice this.

Page 756: Second sentence should be: "The p -values are shown in the table for the row player (pursuer), the column player (evader), and for joint play."

Page 776: 8-9 lines from the bottom: Omit "prior to paying the fee".

Page 777, third para from the bottom, second sentence should be: "Possible-loss avoidance occurs when one shuns the play of strategy R in game M, while certain-loss avoidance occurs when one shuns the play of strategy S in the game L."

Page 791, point 3 in the middle of the page is better stated as follows: In the "partial information condition," Games 1 and 3 should have the same Nash bargaining solution and so should Games 2 and 4: Property 4 requires mutual knowledge of utility functions. The full information condition reveals the mutual monetary payoffs. However, in the partial information condition, players only know their own monetary payoffs. However, each player observes the bargaining split of the lottery tickets, and so observes the probability p that the other player has of winning the prize. This information is sufficient to construct the utility function of the other player (recall, $u(x_2) = p$). Thus, the expectation is that Property 4 (mutual knowledge of utility functions) applies fully only to the partial information condition.

Page 793, penultimate line on the page, replace $(x, c - x)$ by $(c - x, x)$.

Page 8.15, caption to the figure: remove the word "over".

Page 808, first line after equation (12.21): replace Figure 12.35 by Figure 12.34.

Page 829, last line, replace the first "period 4" in the line with "period 5."

Page 830, line 5 delete the word "weak"

Page 833, Table 12.29, first row, replace S_L^*, S_H^* by s_L^*, s_H^* . Make the same correction in Table 12.30 on page 834.

Page 834, footnote 89: Remove the subscript L on s_L .

Page 845, line 4 replace (D, D) with (D,R).

5.2 Corrections to Chapter 13

Page 816, line 4: Change the following text "...fail the ‘direct test’ of being in accord with the..." with the following edited text "...fail the ‘direct test’ and are not in accord with the..."

Page 886, third line, the correct sentence should be "As x increases the QRE changes, but there is no change in π_T in a Nash equilibrium." [Notice the addition of "in π_T ".]

Page 905, Figure 13.10, middle sub-figure, the 2,2th entry which is 100, 100 should be replaced by 101, 100.

Page 908, Remark 13.2 is more accurately worded thus: The coordination rate, $\rho(a)$, is maximized at $a = 1$. The maximum coordination rate is given by $\rho_{\max} = 0.5$, and, $\lim_{a \rightarrow \infty} \rho(a) = 0$. The payoff from each pure strategy in the mixed strategy profile is $a/(1 + a)$.

Page 919, First line after Proposition 13.33: replace (a) by (i).

Page 920, Proposition 13.34, line 3: Replace \hat{x}_i by \hat{x}_j .

Page 937, Figure 13.21, Panel B, when player 1 plays U , his payoff should be -1000 , not 1000 (In the text on p. 938, it says correctly that both players get the inefficient payoff of -1000 each).

Page 942, equation (13.55): Replace \tilde{k}_{iki} by \tilde{k}_{ik} .

Page 943: Paragraph starting on line 3 is too cryptic in some places and there is a typo. Here is a better version: "A problem in testing the theory is that λ_i is unobservable. If $b_{ij}^1 + b_{ik}^1 - 20 = 20$ and $s_i = 0$, then even with the most optimistic beliefs about others, i.e., maximum contributions from others, one still chooses $s_i = 0$. Clearly λ_i must be too low in this case. Hence, Dufwenberg et al. (2011) test a weaker prediction of the theory, namely, that either $b_{ij}^1 + b_{ik}^1 = 40$ and $s_i = 0$ or there is positive correlation between s_i and $b_{ij}^1 + b_{ik}^1$. They consider a 2×2 factorial design that varies the “*label frame*” and the “*valence frame*.” Variations in the label frame are achieved through the treatments: Neutral and Community. In the Neutral treatment, the instructions speak of “the experiment,” while in the Community treatment, the instructions speak of “the community experiment.” The valence frame is implemented by the Give and Take treatments. The Give treatment is as described in the public goods experiment above. In the Take treatment, subjects are endowed with the resources and then allowed to take from it (so s_i has the interpretation of the amount that player i withdraws from the common resource). The monetary payoffs and the equilibria in each case are identical."

Page 950, the only unnumbered equation towards the top of the page, third line, first column, should be: $u_1(\tilde{t}) = y - \tilde{t} + (1 - \gamma) (b_1^2 - \tilde{t})$.

Page 951 paragraph starting on line 3, replace the first two sentences with this clearer version: "The parameter γ_i is unobservable, but $\frac{b_{iji}^2 + b_{iki}^2}{2}$ is observable. If $s_i = 0$ and $\frac{b_{iji}^2 + b_{iki}^2}{2} > 0$, it implies that $\gamma_i < \frac{1}{2}$; such subjects can be isolated from the data. For the remaining subjects, Dufwenberg et al. (2011) test the weaker hypothesis that the correlation between s_i and $\frac{b_{iji}^2 + b_{iki}^2}{2}$ is positive." Also replace the very last sentence in this same paragraph by: The filled-in circles represent the case $s_i = 0$, $\frac{b_{iji}^2 + b_{iki}^2}{2} > 0$ and $\gamma_i < \frac{1}{2}$.

Page 953, line 16 replace the sentence starting with "Clearly..." by : "If the players have self-regarding preferences and lack emotions such as guilt (as reflected in the payoffs in panel A), then such communication will be ineffective."

Page 956, third paragraph, 3 sentences beginning on line 15 with "Player 2...", replace by: "We assume a distribution of beliefs in the spirit of the Köszegi–Rabin framework (see Volume 1 of the book). Player 2 has the first order belief, b_2^1 , about the transfer to him. The second order belief of player 1 about the belief, b_2^1 , is given by, b_1^2 ."

Page 957, first line after equation (13.76): Replace $t \times (\theta)$ by $t^*(\theta)$.

Page 957, first line of Proposition 13.39: Replace $t \times (\theta)$ by $t^*(\theta)$.

Page 957, first sentence after equation (13.78) should be: Since θ is assumed to be the median of the distribution F_2^1, F_1^2 ($t^* = \theta \mid \theta$) = $\frac{1}{2}$.

Page 968, Definition 13.23 has some notational typos. It should read: (Analogy-based expectations equilibrium, ABEE) : A strategy profile (σ_r, σ_c) is an analogy-based expectations equilibrium (ABEE), given the analogy partitions A_r, A_c , if for all $G \in \mathbf{G}$ and all s_j^* in the support of $\sigma_j(G)$, $j = r, c$ we have

$$s_j^* \in \arg \max_{s_i \in S_i} \sum_{s_i \in S_i} \bar{\sigma}_i(s_i \mid G) u_j(s_j, s_i \mid G), \quad i \neq j, i = r, c, s_j \in S_j,$$

and $\bar{\sigma}_i$ is given in (13.91).

Page 983, Case 3, there are typos. The correct social projection function should be:

$$\begin{cases} P_{12}(C|C) = 1, P_{12}(D|C) = 0; P_{12}(D|D) = 0, P_{12}(C|D) = 1, \\ P_{21}(C|C) = 1, P_{21}(D|C) = 0; P_{21}(C|D) = 1, P_{21}(D|D) = 0. \end{cases}$$

The text immediately following the only equation on the page can be written a little more clearly with player identities: "denote the logit proba-

bility that player i plays S, conditional on a belief that the opponent plays S with probability q and $\mu = \mu_0$ is the error rate with which player i makes choices. q represents a player's *first order beliefs* about the other player. So we can recursively define higher order beliefs as follows.

1. ρ^0 represents player i 's choice probability ($\rho^0 \equiv \pi_{iS}(q | \mu_0)$).
2. ρ^1 represents player i 's first order beliefs about the strategy choice of the opponent ($\rho^1 \equiv q$).
3. ρ^2 represents player j 's second order beliefs. These are the beliefs of player j about the first order beliefs of player i , ρ^1 . And so on ... "

6 Corrections to Part 5

7 Corrections to Part 6

8 Corrections to Part 7

8.1 Corrections to Chapter 19

1. Table 19.3 on p. 1367, second column: Replace Mdti by Mdn
2. Page 1352 first line of the penultimate paragraph should read: "If subjects produce negative autocorrelation when asked...."
3. Page 1373, Section 19.6.3, line 6 in this section: "explain a range of other phenomena" in place of "explain a range of other judgement heuristics."

9 Corrections to Chapter 21

Equation (21.57): missing 2 in front of the expression. (21.57) should be $V = 2\lambda(1 - \lambda) |s_1 - s_2|$

10 Corrections to Appendix on game theory

Page 1703, third para, first line, replace "utility function" by "payoff"

Page 1703, Section A2, third para, line 1, replace "strategy" by "strategies"

Page 1707, line 3, replace N by n.

Page 1714: 4th para, 5th line, term in brackets should be: $(d_1 \notin P(d_2)$ and $d_2 \notin P(d_1)$).

Definition A.10: The following is a slightly more pedantic way of writing parts (a) and (b) but ensures that there is no confusion, which could have arisen from the earlier shorthand notation:

Definition 1 (a) *If any signal is played by a sender of type t with strictly positive probability, then it must be a maximizing choice for the sender. Thus, if $\sigma_1(s^*, t) > 0$ then*

$$s^* \in \arg \max_{s \in S_1} \sum_{a \in S_2} \sigma_1(s, t) \sigma_2(a, s) u_1(t, s, a), \forall t. \quad (\text{A.15})$$

(b) *On receiving a signal s , if any action a is played with strictly positive probability by the receiver, then it must maximize the receiver's expected utility. Thus, if $\sigma_2(a^*, s) > 0$ when signal s is observed, then*

$$a^* \in \arg \max_{a \in S_2} \sum_{t \in T} \mu(t | s) \left[\sum_{s \in S_1} \sum_{a \in S_2} \sigma_1(s, t) \sigma_2(a, s) u_2(t, s, a) \right], \forall s. \quad (\text{A.16})$$