

Information cascades as a form of rational herding help to explain real-life phenomena such as fads, fashion, creation of 'bubbles' in financial markets or conformity in general. In this thesis I model both the propensity to herd as well as the propensity to view public information that may lead to herding. I carry out a laboratory experiment where I let subjects perform a simple task under different treatment conditions with the possibility to herd. Researchers normally imposed the uncertainty about the private signal by providing a task probabilistic in its nature such as drawing balls of different color from an urn and the decision-making was sequential. I conduct an experiment where the order of decision-making is endogenous and a task that is not probabilistic, but I impose uncertainty of private signal by increasing time pressure. This is expected to make participants prone to imitate the behavior of others, even though the others will be exposed to the same conditions. The time-pressure is also expected to induce stress reaction, which I measure as a physiological proxy variable – the heart rate frequency. Participants after each task state the subjective level of stress they felt to be in. I compare these two indices of stress if they bring same results. I also account for personality differences by measuring them in the “Big Five” dimensions by a battery of standardized questions. If significant, the personality traits may provide another piece of evidence that the original informational approach to herding is not exclusive and personality is also an important underlying factor. Apart from that I examine the effect of reputation (also called endorsement effect) as an addition to the public pool of information, which is expected to increase the probability to herd.