Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Lubomír Cingl**
Advisor:	**Michal Bauer**
Title of the thesis:	**Do information cascades arise easier under time pressure? Experimental approach.**

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Information cascades and associated herding behavior can explain several important phenomena, including financial bubbles. It is therefore useful to explore under what circumstance they are more likely to appear and what type of people are more likely to heard. Lubomír has designed a laboratory experiment to study this question. Subjects do a simple cognitive task (counting zeros from a sheet of 400 symbols). There are two treatments: (1) whether participants can ignore their private opinion (number of zeros) and adjust the estimated number according to opinion of other participants (displayed on a screen) and (2) the amount of time allocated to do the task. To study the effect of associated stress, Lubomír measured individual heart rate. To study the effect of reputation, he varied whether the opinion of other participants were complemented with their track record (payoff in previous rounds). To study individudal heterogenity, he experimentally elicited risk aversion and used a survey which included questions that are used to classify individuals according to thein personality traits, self-confidence, preceived kindness in a dictator game (social preference) and a few other characteristics.

Besides the interesting topic, I would like to highlight that conducting such an exercise is a very effortful task: learning with z-tree (experimental software), arranging access to an experimental lab and to devices which measure heart rate, finding funding for the project (the participants were financially motivated), organizing the experiments etc. Completing all that and writing up results is indeed ambitious for a one year project. This also explains why Lubomír defends his thesis in September and not in June.

This study is at the intersection of several streams of literature and I appreciate that Lubomír took the effort to read great amount of relevant papers. I must admit that I don't know much of this literature and here Lubomír's previous interaction with Armin Falk has been helpful. The econometric methods are advanced. I like that Lubomír also uses alternative specifications and tests (logit vs probit, Heckman two stage procedure, etc) to assess robustness of his findings. My only reservation is with regard to the format of the thesis. I think there are too many headings and sub-headings, as well as too many fonts. This somewhat disturbs the flow of the text. The thesis could also be shorter; in particular the description of various estimation techniques could be omitted. One can find this in textbooks.

Many results are intuitive (for instance, risk averse and more self-confident people are less likely to view public information), but let me mention one that is surprising and I think deserves further scrutiny, as discussed by Lubomír. He finds negative correlation between heart rate response and the willingness to use public information, thus more "stressed" people rely more on themselves. The original assumption was that it's going to be the other way around. The question then is, whether heart rate measures stress or rather effort given to the

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task. Or it could suggest that stressed people are more selective of strategies they use. Lubomír also finds that the relationship between time pressure and herding/performance is more complex than monotonic relationship predicted by theory.

I also quite like the results of the session when incorrect cascade emerged and later got corrected. It might be worth spending some thought whether there is an experimental way to "nudge" subjects towards incorrect cascades (such as the quick random responses of a few subjects) and then study under what circumstances/institutions they get more easily corrected. Perhaps this could be something a committee may want to discuss during the defense.

This is a serious research work and I think the thesis is well above the standards requested for MA thesis. The potential of this research topic has also been acknowledged by the Grant agency of the Charles University. Of course, the thesis will need substantial sharpening and shortening before becoming a paper, but I think it creates a solid ground for that. I am happy that Lubomír plans to continue working on this topic during his PhD studies at IES. I recommend grade A. If the defense is convincing, the committee may consider some form of acknowledgement for the quality of the thesis.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Literature	*(max. 20 points)*	20
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	30
Manuscript Form	*(max. 20 points)*	11
TOTAL POINTS	*(max. 100 points)*	**91**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: Michal Bauer

DATE OF EVALUATION: 15.8.2010

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Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	Average	Weak
20	10	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	Average	Weak
30	15	0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	Average	Weak
30	15	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	Average	Weak
20	10	0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě