

Two Heads Are Less Bubbly than One: Team Decision-Making in an Experimental Asset Market

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ABSTRACT

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We study the effect of team decision-making on bubbles and crashes in experimental asset markets of the kind introduced by Smith, Suchanek and Williams (1988). We find that populating such markets with teams of size two instead of individuals significantly reduces the severity of mispricing. In particular we observe that under our teams treatment, deviations in prices away from intrinsic value are significantly smaller in magnitude, shorter in duration and associated with lower volume and price volatility. We also find an unexpected gender effect in team composition, manifesting itself in more extreme – though not consistently more profitable – behaviour by all-male teams. Since these effects are not observed among male participants generally, we conjecture that they may be due to factors specific to the psychology of decision-making in male-dominated environments.

Non-Technical Summary:

Many important decisions in both business and government are increasingly being entrusted to small groups as opposed to individuals. Yet economics has remained largely silent on the question of group decision-making, treating the decisions of households and firms as though they were made by unitary decision-makers. This paper uses an experimental asset market to investigate whether trading by teams of size two is less likely to generate market bubbles and crashes. The main result is that bubbles are indeed diminished under team decision-making. In addition, the gender composition of teams has surprising effects upon their performance, with all-male teams adopting more extreme – though not necessarily more profitable – positions. We thus conjecture that the psychology of decision-making in male-dominated environments may contribute to instability in financial markets.

JEL Classification: C92, D70, G12

Keywords: asset market experiments, price bubbles, group decision-making,
gender composition of teams

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