ABSTRACT

This paper studies the role of information clarity versus accuracy on action choices, and information acquisition decisions in beauty contests. Accuracy of an information source measures how precisely the source identifies the underlying economic state, whereas clarity measures how easily the source is understood by its audience. To examine the relative importance of accuracy and clarity, we consider two equally informative sources, but one source has low accuracy and high clarity, and the other has high accuracy and low clarity. Theory predicts that the source with low clarity is under-weighted in action choices, and less likely to be acquired, even though it has high accuracy. Both under-weighting and under-acquisition behaviors increase with strategic complementarities. Our experimental results confirm the directional predictions. However, the under-weighting of the source with low clarity is less acute than theoretical predictions, implying a finite level of high-order beliefs. In contrast, the under-acquisition of the less clear source is more acute than theoretical predictions. The source with low clarity is ignored even when its cost is negligible, because the overreliance on this source at the beauty contest stage creates an endogenous cost in the acquisition stage.

(Copies of the paper will be available soon)