

An Experimental Test of the Consistent-Conjectures Hypothesis

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Abstract: This paper compares the theoretical predictions of the consistent-conjectures hypothesis with data for individuals' behavior in several laboratory experiments. Subjects simultaneously choose either price or quantity in a sequence of market periods, and are given payoff tables that provide complete information about the relationship between decisions and payoffs for all participants. The matching protocols include both fixed pairings for a random number of periods and a deterministic rotation that implements a series of one-shot games. The table has been expanded so that there is no decision that the consistent conjectures equilibrium decision is not dominated, and a constant added to all payoffs ensures a reasonable level of earnings in this proposed equilibrium. This equilibrium concept does not provide good predictions in these experiments. The data are more consistent with the Cournot/Nash prediction, especially in the later rounds of the deterministic rotation protocol. With fixed pairings, some pairs managed to reach tacitly collusive outcomes.