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The Precision of Subjective Data and the Explanatory Power of Economic Models*

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Abstract

Subjective expectations are important primitives in many economic models, yet their direct measurement often yields imprecise and inconsistent data. This has previously been treated as a pure measurement error problem. In contrast, this paper argues that the individual-level precision of such data may reflect the structure of the underlying decision process. We estimate a semiparametric double index model on data specifically collected for this purpose and show that stock market participation decisions exhibit little variation in economic model primitives when individuals provide error-ridden belief statements. In contrast, beliefs and risk preferences predict strong variation in stock market participation for individuals who report precise expectations measures.

Keywords: Measurement Error, Subjective Expectations, Stock Market Participation

JEL codes: C35, C51, G11

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