

# Robust Misspecified Models and Paradigm Shifts

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Oct 5, 2022

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## Abstract

This paper studies which misspecified models are likely to persist when the decision maker compares her model with competing models. I present a framework where the agent learns about an action-dependent data-generating process and makes decisions repeatedly. Aware of potential model misspecification, she uses a Bayes factor criterion to switch between models according to how well they fit the data. The main result provides a characterization of persistent models based on the model-induced equilibrium, properties of the learning process such as priors and the switching threshold, and the set of competing models that may arise. I show that misspecified models can be robust against a wide range of competing models—including the true data-generating process, despite the agent having an infinite amount of data. Moreover, simple misspecified models with entrenched priors may have even better robustness properties than correctly specified models. I use these results to provide learning foundations for the persistence of systemic biases in two canonical applications: first, in a natural class of effort-choice problems, overconfidence in one’s ability is more robust than underconfidence; second, an oversimplified binary view in politics trumps a correct view and leads to polarization when individuals consume media without fully recognizing the media bias.

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# 1 Introduction

People use models to guide decision making, but the subjective nature of models suggests that misspecification is almost inevitable. In addition to the need of simplifying the complex world, misspecification can also come from behavioral biases, such as overconfidence and correlation neglect. To explore the implications of misspecification and the underlying biases, studies in the misspecified learning literature typically consider a *dogmatic modeler* who uses a particular misspecified model. We know from this literature that misspecification may lead to incorrect or cyclical asymptotic beliefs and long-term inefficiency.<sup>1</sup>

However, the assumption that individuals hold on to a single model contradicts a plethora of evidence—people often switch models when an alternative seems more compelling. Kuhn (1962) formalized the notion of paradigm shifts to characterize the phenomenon that scientists adopt a new paradigm if it fits the observable data significantly better, usually in terms of both accuracy and simplicity. One classic example of a paradigm shift is the shift from the Ptolemaic model to the Copernican model in astronomy. Likewise, economists develop and adopt new models when evidence comes to light that important frictions are missing from old models. Outside the realm of science, people alter their subjective assumptions or principles in everyday life, such as converting to another religion or changing thinking patterns in cognitive behavioral therapy. Individuals are also influenced by and attracted to different political narratives as they receive more information, and they strive to overcome implicit bias through self-reflection.<sup>2</sup>

If individuals can switch to competing models, why and when should we expect a misspecified model to persist? This paper proposes a novel learning framework that allows for model switching and finds that misspecified models can persist even in the presence of correctly specified competing models. In this framework, the way an agent engages in model switching is reminiscent of paradigm shifts—she uses exactly one model at any point in time to guide decisions, but can switch to a competing model if the data’s likelihood ratio under the competing model relative to the current model exceeds an exogenous switching threshold.

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<sup>1</sup>Examples include: a monopolist trying to estimate the slope of the demand function when the true slope lies outside of the support of his prior (Nyarko, 1991; Fudenberg, Romanyuk, and Strack, 2017); agents learning from private signals and other individuals’ actions while neglecting the correlation between the observed actions (Eyster and Rabin, 2010; Ortleva and Snowberg, 2015; Bohren, 2016) or overestimating how similar others’ preferences are to their own (Gagnon-Bartsch, 2017); overconfident agents falsely attributing low outcomes to an adverse environment (Heidhues, Köszegi, and Strack, 2018, 2019; Ba and Gindin, 2021); a decision maker imposing false causal interpretations on observed correlations (Spiegler, 2016, 2019, 2020); a gambler who flips a fair coin mistakenly believing that future tosses must exhibit systematic reversal (Rabin and Vayanos, 2010; He, 2020); individuals narrowly focusing their attention on only a few aspects rather than a complete state space (Mailath and Samuelson, 2020).

<sup>2</sup>See Fisher (1985); Braungart and Braungart (1986); Wegener and Petty (1997); Massey and Wu (2005); Di Stefano, Gino, Pisano, and Staats (2015).

A central conceptual contribution of this framework is to formalize model persistence and robustness as relative concepts. A model *persists* against a competing model if, with positive probability, the agent eventually stops switching and adopts this model forever. I define robustness as the ability to persist against a wide range of competing models. Critically, the scope and implications of robustness may vary considerably with the structure of the admissible competing models and their distance from the initial model. This motivates me to consider and compare several robustness notions, each of which can be applied to a class of environments where a particular type of competing models are likely to arise.

My main result is a characterization of robustness based on three factors: the model-induced equilibria, the properties of the learning process, and the set of competing models that may arise. This general characterization delineates the forms of misspecification that are likely to persist in a variety of environments, thereby providing off-the-shelf tools to examine which underlying behavioral biases are more relevant in specific contexts. This can be particularly useful in generating new predictions for empirical research and suggesting behavioral policies. Interestingly, a misspecified model can be robust against *arbitrary* competing models, including the true data-generating process, despite the agent having an infinite amount of data. Hence, this paper also provides a learning foundation for the persistence of certain forms of model misspecification. In particular, I show that a sufficient and necessary condition for such a strong property is the existence of a *self-confirming equilibrium* that satisfies a stability condition. To illustrate, consider the following example.<sup>3</sup>

**Example.** An artist chooses how much effort to exert in creating artwork in every period,  $a_t \in \{0, 1, 2\}$ . Upon exerting effort, he incurs a cost  $a_t(a_t + 0.5)$  but also obtains revenue from the sales of his work. The sales revenue takes a simple form:  $y_t = (a_t + b)\omega + \epsilon_t$ , where  $b$  is the talent level of the artist,  $\omega$  is an unknown market demand for arts, and  $\epsilon_t$  captures a random noise with a known distribution. I assume that the true talent is 1 and the true market demand is 2. If the artist has the correct belief about his talent, he is able to learn the market demand correctly as he accumulates more sales data, allowing him to eventually choose the efficient effort level of 1.<sup>4</sup>

The artist has a misspecified model if he knows the sales function but is dogmatically overconfident or underconfident about his talent level. [Heidhues et al. \(2018\)](#) take these biases as given and show that both overconfidence and underconfidence lead to wrong inferences about the market demand and inefficient choices of effort in the long run. In contrast, my result reveals that in this context overconfidence is more robust than underconfidence. This

<sup>3</sup>I build this example on [Heidhues et al. \(2018\)](#). In Section 5, I extend this example to allow for more general payoffs and outcome distributions.

<sup>4</sup>More precisely, if the artist is correct about his talent, a sufficient and necessary condition for correct learning is that the artist’s prior assigns positive probability to the true market demand.

theoretical prediction is consistent with a large amount of empirical evidence that people usually exhibit overconfidence instead of underconfidence.<sup>5</sup>

Let us first consider the case of an overconfident artist who believes his talent level is  $\hat{b} = 2$ , but also entertains a competing model and can switch to it if the data indicate that his belief about talent is wrong. Overconfidence induces the artist to underestimate the market demand since he can only attribute the disappointing sales to low demand. The artist then responds to a low belief in demand by exerting low effort. What comes next is critical: a lower effort choice then induces an even lower belief—due to complementarity, the marginal return to market demand decreases as effort drops, so a larger inference-truth gap is necessary to make sense of the disappointing sales. The positively reinforcing dynamics eventually lead the artist to the false conclusion that the market demand is  $\hat{\omega} = 1$  and an inefficient choice of effort  $\hat{a} = 0$ . Most importantly, zero effort constitutes a self-confirming equilibrium: it is optimal against the misguided belief about the market demand, and this low belief happens to perfectly match the sales data at zero effort given the misspecified model, since

$$(\hat{a} + \hat{b}) \cdot \hat{\omega} = (0 + 2) \cdot 1 = (\hat{a} + b) \cdot \omega = (0 + 1) \cdot 2 = 2.$$

At zero effort, the prediction of the misspecified model has the highest possible accuracy. Therefore, the artist is not compelled to switch away even if the competing model is correctly specified and assigns positive probability to the true talent level. The results in this paper imply that a model with overconfidence can persist against any arbitrary competing model.

Next, let us turn to an underconfident artist who believes in a talent level of  $\hat{b} = 0$  but could switch to a competing model based on his observations. In contrast to the previous case, underconfidence induces the artist to overestimate the market demand and take a high effort. Critically, a high effort choice then induces a lower belief, correcting the artist’s overestimation—the marginal return to demand increases as effort rises, so a smaller inference-truth gap suffices to explain the sales data. Repeating this logic, a lower belief in the market demand then decreases the effort and pushes up the belief, generating a negative feedback loop. Consequently, the artist’s effort cycles between 1 and 2 forever, and no single value of market demand can explain all data perfectly—the model admits no self-confirming equilibrium. To see this, note that the effort of 1 pushes the artist’s belief towards a demand of 4 and the effort of 2 pushes towards a demand of 3,

$$\begin{aligned} (\hat{a}^1 + \hat{b}) \cdot \hat{\omega}^1 &= (1 + 0) \cdot 4 = (\hat{a}^1 + b) \cdot \omega = (1 + 1) \cdot 2 = 4, \\ (\hat{a}^2 + \hat{b}) \cdot \hat{\omega}^2 &= (2 + 0) \cdot 3 = (\hat{a}^2 + b) \cdot \omega = (2 + 1) \cdot 2 = 6. \end{aligned}$$

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<sup>5</sup>See [Langer and Roth \(1975\)](#), [Svenson \(1981\)](#), [Benoît, Dubra, and Moore \(2015\)](#).

However, a correctly specified model can always achieve the highest prediction accuracy regardless of the effort choices. Therefore, if the artist entertains such a competing model, her initial model cannot persist and will be abandoned almost surely.

This example gives a hint about *why* and *which* misspecified models can persist: robustness requires high accuracy, but it only needs to be achieved for a limited set of model-induced actions. However, what is missing from this example—and what distinguishes this paper from previous studies on self-confirming equilibrium and endogenous feedback (Fudenberg and Levine, 2009)—is the dynamics of model switching and the consideration of environmental factors. In particular, the equilibrium analysis does not speak to *when* misspecified models persist. For example, how does a higher switching threshold facilitate robustness? Does robustness depend on the prior of the agent? Finally, how does the set of robust models differ if we vary the range of competing models?

I now discuss the framework in more detail. In the main analysis, I assume the agent starts with an initial model and entertains exactly one competing model. A model is a parametric theory of how actions (e.g. effort) may affect the distribution of outcomes (e.g. sales). It consists of a finite set of possible data-generating processes, each indexed by a parameter value (e.g. market demand). parameters may capture uncertainty about the state of the world or subjective configuration variables internal to the model. Our agent subscribes to a model and switches to a better-fitting alternative when the evidence is sufficiently strong. Within a model, the agent assigns a prior and conducts Bayesian updating over the parameters, and plays the optimal action predicted by the model. To decide whether to switch to a competing model, the agent computes the *Bayes factor*—the likelihood ratio of the two models—and switches only if it exceeds a fixed switching threshold larger than 1.

The asymmetry in the agent’s approaches to dealing with parameter uncertainty and model uncertainty merits discussion. As pointed out in Savage’s (1972) *Foundations of Statistics*, Bayesianism is a reasonable description of human behavior only when we restrict attention to “modest little worlds”, and it is “utterly ridiculous” to imagine such a world encompasses all possible states of the world. This paper studies a particular non-Bayesian rule to switch between different “little worlds” and derives its implications on model persistence. This switching rule also captures the observation that paradigm shifts are sticky, potentially resulting from reasons unmodeled in this paper such as switching costs. For example, universities base their promotion decisions on models of faculty performance that heavily rely on key statistics such as the rankings of the journals. While such an evaluation system can be deeply flawed, a model switch only occurs when a meta-analysis of other potential evaluation systems points to a clear winner. This paper does not seek to provide an explanation for switching stickiness, but takes it as given and explores its comparative statics.

Properties	Notions of robustness		
	global	local	constrained local
accuracy	high	high	low
tightness	high	none	none

Table 1: Summary of results.

I define and characterize three notions of model robustness that can be ranked in their strengths. Fixing a prior over parameters, a model is *globally robust* if it persists against any arbitrary competing model associated with any prior, including both local perturbations of the original model and fundamentally different paradigms; a model is *locally robust* if it persists against local perturbations with similar predictions and similar priors; a model is *constrained locally robust* if it only persists against structured local changes, which are special local perturbations that are constrained to share the same parametric structure, such as preserving the linearity or normality in the predicted data-generating processes. Which robustness notion is the most appropriate should be judged by the consideration of contexts in different applications. Global robustness is most applicable when the agent can “think outside the box”, while local notions are more suitable when the agent tends to be conservative and only take small steps. The constrained notion applies when the agent does not completely forgo subjective assumptions and only changes in certain directions, such as an overconfident artist only considering higher-than-average talent levels due to an ego bias.

I show that all three notions of robustness can be characterized in terms of two requirements that they impose on the model, asymptotic accuracy and prior tightness, as summarized by Table 1. While it is natural to conjecture that local robustness is much weaker than global robustness, surprisingly, Theorem 1 establishes that a model is globally robust at some full-support prior if and only if it is locally robust at some full-support prior, and both amount to a high-accuracy requirement that the model admits a self-confirming equilibrium that satisfies a stability condition called *p-absorbingness*. In this regard, persistence against local perturbations is as powerful as persistence against paradigms shifts. Theorem 2 shows that the real distinction between local and global robustness lies in their requirements for prior tightness. A model is globally robust at a given prior if and only if the prior is concentrated over the set of parameters associated with p-absorbing self-confirming equilibria. I provide an exact closed-form quantification of the required level of tightness in terms of the switching threshold, showing that sticky switching facilitates global robustness by allowing the model to remain globally robust under more diffuse priors. By contrast, local robustness is fully characterized by the induced equilibria and does not require prior tightness. Theo-

lems 3 and 4 show that for constrained local robustness we can further relax the accuracy requirement from a self-confirming equilibrium to a refinement of a Berk-Nash equilibrium.

These results draw an interesting comparison between misspecified and correctly specified models. On one hand, correctly specified models always have the highest possible accuracy that only a subset of misspecified models can achieve. On the other hand, a correctly specified model may be associated with a less tight prior as compared to a misspecified one, especially when the latter has a smaller parameter space or gives rise to a large number of self-confirming equilibria. This delivers an unnerving negative message: some misspecified models can be more robust than correctly specified models precisely because they are sufficiently extreme and misleading. In Section 5, I apply this insight to a media consumption problem and demonstrate that wrong but simple narratives can outperform the correct worldview and lead to persistent polarization in political beliefs.

The rest of the paper is organized as follows. The next subsection discusses related literature. Section 2 introduces the learning framework. Section 3 characterizes local and global robustness, and Section 4 characterizes constrained local robustness. Next, Section 5 discusses two applications of the characterization results, including a revisit of the overconfidence and underconfidence example. Section 6 discusses three extensions of the model switching framework and Section 7 concludes. Appendix A contains useful auxiliary results, Appendix B includes all proofs of the main results, and Appendix C contains examples omitted from the main text.

## Related Literature

This paper builds on the growing literature of learning with misspecified models. Much of this literature focuses on case-by-case analyses of misspecified models as I mentioned in Footnote 1. This paper characterizes robust misspecified models in general environments with simple conditions on the primitives, providing a learning foundation for certain forms of misspecification. Another strand of this literature studies equilibrium concepts when the decision maker is a dogmatic modeler. Esponda and Pouzo (2016) propose the concept of Berk-Nash equilibrium, generalizing Fudenberg and Levine’s (1993) self-confirming equilibrium by relaxing the requirement that the subjective prediction fully coincides with the objective reality.<sup>6</sup> This paper deepens our understanding of the distinction and the connection between the two solution concepts by relating self-confirming equilibrium to unconstrained

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<sup>6</sup>Other related concepts include the analogy-based expectation equilibrium in Jehiel and Koessler (2008) and the cursed equilibrium in Eyster and Rabin (2005). As pointed out by Esponda and Pouzo (2016), these two solution concepts coincide with Berk-Nash or self-confirming equilibrium under appropriately specified feedback structures.



robustness notions and Berk-Nash equilibrium to constrained robustness.

Recent contributions to the literature focus on characterizing the asymptotic learning outcomes of dogmatic modelers in general environments. This paper faces many common technical challenges, since model persistence partly hinges on the asymptotic behavior of a dogmatic modeler. [Bohren and Hauser \(2021\)](#) provide criteria for local and global stability of strict Berk-Nash equilibria in settings with model heterogeneity. [Esponda, Pouzo, and Yamamoto \(2019\)](#) find conditions for a single agent’s action frequency to converge to a Berk-Nash equilibrium using tools from stochastic approximation. [Fudenberg, Lanzani, and Strack \(2021\)](#) establish that a uniformly strict Berk-Nash equilibrium is uniformly stable in the sense that starting from any prior that is sufficiently close to the equilibrium belief, the dogmatic modeler’s action converges to the equilibrium with arbitrarily high probability. In this paper, I show that robustness is related to  $p$ -absorbingness, a different stability notion that does not require the dogmatic modeler’s action to converge, but her action to enter and eventually stay within the support of an equilibrium. Finally, [Frick, Iijima, and Ishii \(2021a\)](#) introduce a prediction accuracy ordering over parameters within a model and use martingale arguments to prove belief convergence. In [Section 4](#), I use a similar technique to compare prediction accuracy across models.

This paper makes a new technical contribution to the literature by integrating model switching into a misspecified learning framework. Given that the agent has access to multiple models, we need to keep track of multiple belief processes, all of which are generated by endogenous data. Most importantly, the Bayes factor that governs the model switching process interacts and correlates with all belief processes even when no switching has been made. In [Section 3.3](#), I show such interaction can cause the adoption of some models to be self-defeating and then propose a set of no-trap conditions to overcome this difficulty.

This paper is most related to a smaller set of papers that explore why misspecified models persist. [Cho and Kasa \(2015\)](#) also study model switching with endogenous data but assume a different switching rule. They assume that the agent always compares the model prediction with the empirical realizations and characterize dominant models based on the speed of convergence to a self-confirming equilibrium. By contrast, a key conceptual innovation of my framework is to view model robustness as a relative concept. The agent in my framework decides whether to switch by comparing the prediction quality of her model relative to that of a competing model. [Olea, Ortoleva, Pai, and Prat \(2019\)](#) characterize the “winner” model in a contest environment where agents use models to predict an exogenous data-generating process and make auction bids based on their subjective model prediction error. They identify a trade-off between model fit and model estimation uncertainty when the dataset is small. In contrast, I show prior rightness is important for robustness even with infinite

amount of data. [Gagnon-Bartsch, Rabin, and Schwartzstein \(2020\)](#) study the “attentional stability” of models. They examine a setting where agents only pay attention to data they deem as relevant given the current model.

A few recent papers approach this problem from an evolutionary perspective. [Fudenberg and Lanzani \(2020\)](#) study the evolution dynamics when a small share of the population mutates to enlarge their models at a Berk-Nash equilibrium. They find that evolutionary forces select models that induce better performing actions but may have lower statistical fit. My results complement their findings by showing robust models have high prediction accuracy but can generate poor payoffs. [He and Libgober \(2020\)](#) also evaluate competing models based on their expected objective payoffs but examine multi-agent strategic games where misspecification can lead to beneficial misinferences. Relatedly, [Frick, Iijima, and Ishii \(2021b\)](#) study welfare comparisons of learning biases and find that some biases can outperform Bayesian updating because they may lead to correct learning at a faster speed.

A few other papers entertain the similar idea that people have access to multiple models and explore its implications. [Mullainathan \(2002\)](#) presents a model of “categorical thinking” in which people switch between coarse categories and policies discontinuously, resulting in overreaction to news. [Ortoleva \(2012\)](#) proposes and axiomatically characterizes an amendment to Bayes’ rule that requires the agent to switch to an alternative upon observing zero-probability events. This consideration is not present in my framework as all subjective distributions and the objective distribution have full support. [Karni and Vierø \(2013\)](#) provide a choice-based decision theory to model a self-correcting agent who can expand his universe of subjective states. [Galperti \(2019\)](#) and [Schwartzstein and Sunderam \(2019\)](#) extend the idea of alterable subjective models to a persuasion setting and study how a principal could persuade an agent to accept a different worldview.

This paper is also related to the statistics literature in model selection. Statisticians have developed a number of criteria that differ in their cost of computation and penalty for overfitting, such as the Bayes factor, Akaike information criterion (AIC), Bayesian information criterion (BIC), and likelihood-ratio test (LR test), and the machine learning community favors cross-validation due to its flexibility and ease of use ([Chernoff, 1954](#); [Akaike, 1974](#); [Stone, 1977](#); [Schwarz et al., 1978](#); [Kass and Raftery, 1995](#); [Konishi and Kitagawa, 2008](#)). This work focuses on the Bayes factor rule and differs with the statistical literature by studying an endogenous data-generating process. I will come back to the comparison of different model selection rules in [Section 2.3](#).

## 2 Framework

### 2.1 Setup

**Objective Environment.** I consider an infinitely repeated decision problem with a myopic agent.<sup>7</sup> In each period  $t = 0, 1, 2, \dots$ , the agent chooses an action  $a_t$  from a finite set  $\mathcal{A}$  and then observes a random outcome  $y_t$  from  $\mathcal{Y}$ . The set of possible outcomes  $\mathcal{Y}$  is either an Euclidean space or a compact subset of an Euclidean space with at least two elements. The agent's action may affect the distribution of the outcome: conditional on  $a_t$ , outcome  $y_t$  is independently drawn according to probability measure  $Q^*(\cdot|a_t) \in \Delta\mathcal{Y}$ . This true data generating process (henceforth true DGP) remains fixed throughout. At the end of period  $t$ , the agent obtains a flow payoff  $u_t := u(a_t, y_t) \in \mathbb{R}$ . The function  $u$  is known to the agent. I denote the observable history in the beginning of period  $t$  by  $h_t := (a_\tau, y_\tau)_{\tau=0}^{t-1}$  and the set of all such histories by  $H_t = (\mathcal{A} \times \mathcal{Y})^t$ . I make the following assumptions on the true DGP and the payoff function.

**Assumption 1.** (i) For all  $a \in \mathcal{A}$ ,  $Q^*(\cdot|a)$  is absolutely continuous w.r.t. a common measure  $\nu$ , and the Radon-Nikodym derivative  $q^*(\cdot|a)$  is positive and continuous; (ii) For all  $a \in \mathcal{A}$ ,  $u(a, \cdot) \in L^1(\mathcal{Y}, \mathbb{R}, Q^*(\cdot|a))$ .<sup>8</sup>

These assumptions are standard in the literature. Assumption 1(i) means that the true DGP admits a positive and continuous density. When  $\mathcal{Y}$  is discrete, the density  $q^*(\cdot|a)$  is simply the probability mass function and  $\nu$  is the counting measure; when  $\mathcal{Y}$  is a continuum,  $q^*(\cdot|a)$  is the probability density function and  $\nu$  is the Lebesgue measure. Assumption 1(ii) ensures that the agent's true expected period- $t$  payoff,  $\bar{u}_t := \int_{\mathcal{Y}} u(a_t, y) q^*(y|a_t) \nu(dy)$ , is well-defined.

**Subjective Models.** The decision problem is trivial if the agent knows the true DGP—she will simply choose a myopically optimal action every period. However, the agent does not know the true DGP and she uses subjective models to guide her decisions.

A model, indexed by  $\theta$ , is a theory of how actions relate to outcome distributions. Each model  $\theta$  consists of two components: (1) a *parameter set*  $\Omega^\theta$  and (2) *predictions*, or a set of data generating processes denoted by  $Q^\theta : \mathcal{A} \times \Omega^\theta \rightarrow \Delta\mathcal{Y}$ . Conditional on action  $a_t$ , model  $\theta$  predicts the outcome distribution  $Q^\theta(\cdot|a_t, \omega)$ , where  $\omega$  can take any value in  $\Omega^\theta$ .

By appropriately specifying a non-singleton parameter set, we can capture any uncertainty within a model that needs to be resolved via learning. In many situations,  $\Omega^\theta$  could be the

<sup>7</sup>I allow the agent to be patient Section 6.2 and show that all main results continue to hold.

<sup>8</sup> $L^p(\mathcal{Y}, \mathbb{R}, \nu)$  denotes the space of all functions  $g : \mathcal{Y} \rightarrow \mathbb{R}$  s.t.  $\int |g(y)|^p \nu(dy) < \infty$ .

set of possible states of nature that the agent is uncertain about (e.g. market demand). The parameter set could also be possible values of configuration variables internal to the model that needs to be estimated from data. For example, the parameters internal to a linear supply model include only the slope and the constant, although objectively the supply may be non-linear and depend on a variety of other factors. An agent who uses model  $\theta$  updates her belief over its parameters over time via Bayes rule. I restrict attention to models satisfying Assumption 2.

**Assumption 2.** For all  $a \in \mathcal{A}$ : (i)  $\Omega^\theta$  is a finite subset of some Euclidean space; (ii) for all  $\omega \in \Omega^\theta$ ,  $Q^\theta(\cdot|a, \omega)$  is absolutely continuous w.r.t. measure  $\nu$ , and the Radon-Nikodym derivative  $q^\theta(\cdot|a, \omega)$  is positive and continuous; (iii) for all  $\omega \in \Omega^\theta$ ,  $u(a, \cdot) \in L^1(\mathcal{Y}, \mathbb{R}, Q^\theta(\cdot|a, \omega))$ ; (iv) for all  $\omega \in \Omega^\theta$ , there exists  $r_a \in L^2(\mathcal{Y}, \mathbb{R}, \nu)$  such that  $\left| \ln \frac{q^*(\cdot|a)}{q^\theta(\cdot|a, \omega)} \right| \leq r_a(\cdot)$  a.s.- $Q^*(\cdot|a)$ .

Assumption 2(i) requires that the parameter space is finite. Assumptions 2(ii) and 2(iii) are analogous to Assumption 1. They ensure that the subjective models do not rule out events that occur with positive probability under the true DGP and that the expected payoffs predicted by model  $\theta$  are well-defined. Assumption 2(iv) guarantees that the difference between the predictions of the model and the true DGP can be properly quantified so that we can apply the law of large numbers.

Let  $\Theta$  denote the set of all models that satisfy Assumption 2. Since each model is nothing more than a finite set of DGPs, we have  $\Theta \subseteq \cup_{z=1}^{\infty} (\Delta\mathcal{Y})^{|\mathcal{A}|z}$ , where  $z$  represents the size of the parameter set. Model  $\theta$  is said to be *correctly specified* if  $q^*(\cdot|a) \equiv q^\theta(\cdot|a, \omega), \forall a \in \mathcal{A}$  for some  $\omega \in \Omega^\theta$ , i.e. the predictions of  $\theta$  include the true DGP, and *misspecified* otherwise. I use  $\theta^*$  to refer to the smallest correctly specified model, i.e. the model that solely consists of the true DGP.

## 2.2 The Switcher's Problem

The agent has access to a finite set of models,  $\Theta^\dagger \subseteq \Theta$ . It is often assumed in the literature that the decision maker is a *dogmatic modeler* who has a single model. I call a dogmatic modeler with  $\Theta^\dagger = \{\theta\}$  a  $\theta$ -modeler. The key departure I take here is to focus on a *switcher* who entertains at least two models. A switcher adopts one model at any period but may switch between multiple models at different times. For the main analysis, I consider the two-model case where  $\Theta^\dagger = \{\theta, \theta'\}$ ; this model switching framework can be extended to allow for three or more models in  $\Theta^\dagger$ .<sup>9</sup>

Within a single period, a  $\theta$ -modeler and a switcher who adopts  $\theta$  this period operate in an identical way. Both types of agents conduct Bayesian updating over the parameters within

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<sup>9</sup>I analyze this extension in Section 6.1.

model  $\theta$  and then choose a myopically optimal action according to the model prediction. However, a  $\theta$ -modeler and a switcher may behave considerably differently across periods, because the decision rule of the switcher is specific to the current model and can be altered when switching between models.

I now describe a switcher's problem in greater detail. I denote the agent's model choice in period  $t$  by  $m_t \in \Theta^\dagger$  and assume she starts with  $\theta$ , i.e.  $m_0 = \theta$ . We can summarize a switcher's problem by a quadruple,  $S = (\theta, \theta', \pi_0^\theta, \pi_0^{\theta'})$ , where the first two elements represent the *initial model* and the *competing model*, respectively, and the last two elements are the priors over the corresponding model's parameters, i.e.  $\pi_0^\theta \in \Delta\Omega^\theta$  and  $\pi_0^{\theta'} \in \Delta\Omega^{\theta'}$ . I assume that all priors are full-support.<sup>10</sup> I now describe the events in period  $t$  in chronological order.

**Model switching.** In period 0, the agent adopts  $\theta$  and proceeds immediately to choosing an action. In periods  $t \geq 1$ , the agent employs a *Bayes factor* rule to determine the model choice  $m_t$ . Fix a constant  $\alpha > 1$  that I call the *switching threshold*. At the beginning of each period  $t \geq 1$ , the agent calculates the Bayes factor,

$$\lambda_t = \ell_t(\theta') / \ell_t(\theta), \quad (1)$$

where

$$\ell_t(\theta) := \sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \ell_t(\theta, \omega) \quad \text{and} \quad \ell_t(\theta, \omega) := \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega), \quad (2)$$

and  $\ell_t(\theta')$  is defined analogously. That is, the Bayes factor  $\lambda_t$  is the ratio of the likelihood of model  $\theta'$  to the likelihood of model  $\theta$ , and the likelihood of a model is given by the likelihood of all past outcome realizations, summed up across all parameters weighted by the prior. If  $\theta$  is adopted in period  $t - 1$ , then the agent makes a switch to  $\theta'$  if and only if the Bayes factor exceeds the switching threshold,  $\lambda_t > \alpha$ . If  $\theta'$  is adopted in period  $t - 1$ , the agent makes a switch back to  $\theta$  if and only if  $\lambda_t$  drops below the inverse of the switching threshold,  $\lambda_t < 1/\alpha$ .<sup>11</sup> Otherwise, the agent does not find the existing evidence adequate for a model switch. Given a larger  $\alpha$ , switching requires stronger evidence. Thus,  $\alpha$  measures the *stickiness* of switching. I discuss the switching rule in the next subsection.

**Learning.** The agent then updates her belief over the parameters of both models using the full history. I recursively define two belief processes,  $\pi_t^\theta = B^\theta(a_{t-1}, y_{t-1}, \pi_{t-1}^\theta)$  and  $\pi_t^{\theta'} = B^{\theta'}(a_{t-1}, y_{t-1}, \pi_{t-1}^{\theta'})$ , where  $B^\theta : \mathcal{A} \times \mathcal{Y} \times \Delta\Omega^\theta \rightarrow \Delta\Omega^\theta$  is the Bayesian operator for model  $\theta$

<sup>10</sup>This is without loss of generality. Using model  $\theta$  with a non-full-support prior is equivalent to using model  $\theta'$  with the smaller parameter space  $\Omega^{\theta'} = \text{supp}(\pi_0^\theta)$  and a full-support prior.

<sup>11</sup>This symmetry in the switching threshold is not important for the main results.

and  $B^{\theta'}$  is the Bayesian operator for  $\theta'$ . We can alternatively write the Bayes factor in (1) in terms of the posteriors,

$$\lambda_t = \lambda_{t-1} \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_{t-1}^{\theta'}(\omega') q^{\theta'}(y_{t-1}|a_{t-1}, \omega')}{\sum_{\omega \in \Omega^{\theta}} \pi_{t-1}^{\theta}(\omega) q^{\theta}(y_{t-1}|a_{t-1}, \omega)}. \quad (3)$$

This expression has an intuitive interpretation: the first term on the right-hand side compares how well the models fit the data before the last period, and the second term compares how well they explain the most recent observation.

**Actions.** The agent chooses her action according to a fixed pure policy under her current model  $m_t$ . The policy under  $\theta$ , denoted by  $f^{\theta} : \Delta\Omega^{\theta} \rightarrow \mathcal{A}$ , maps from the posterior over the parameters in  $\theta$  to an optimal action, and it is a selection from the correspondence  $A_m^{\theta} : \Delta\Omega^{\theta} \rightrightarrows \mathcal{A}$  which returns all myopically optimal actions at a given belief.<sup>12</sup> Analogously, we can denote the policy under  $\theta'$  by  $f^{\theta'}$  and it is a selection from  $A_m^{\theta'}$ . I construct the underlying probability space in Appendix A.

## 2.3 Discussion

I now briefly comment on the model switching rule before proceeding to the analysis. The discussion on other important assumptions is deferred to Section 6.

**Sticky switching.** A switch only occurs when the alternative fits sufficiently better, as captured by the assumption that  $\alpha > 1$ . This contrasts with the use of Bayes rule when the agent updates beliefs about parameters. Models and parameters are conceptually different, despite their similar roles in determining the data generating process. For example, for a deeply overconfident artist, the market demand for art is a parameter he feels free to update on, while correcting his self-perception demands changing a fundamental assumption and shifting to a new model. Therefore, in contrast to the Bayesian updating about parameters, switching models is non-Bayesian and features stickiness, which potentially due to the agent's conservatism, mental or physical cost of shifting the paradigm, or concerns about overreacting to noisy observations. In the statistics literature on Bayesian model selection, [Kass and Raftery \(1995\)](#) recommend using a threshold of 20 as the requirement of strong evidence in favor of the competing model. Sticky switching is critically important to the persistence of models. When  $\alpha = 1$ , persistence is significantly harder to achieve since switching occurs too easily.<sup>13</sup>

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<sup>12</sup>Formally, for any belief  $\pi_t^{\theta} \in \Delta\Omega^{\theta}$ ,  $A_m^{\theta}(\pi_t^{\theta}) := \arg \max_{a \in \mathcal{A}} \sum_{\Omega^{\theta}} \pi_t^{\theta}(\omega) \int_{\mathcal{Y}} u(a, y) q^{\theta}(y|a, \omega) \nu(dy)$ .

<sup>13</sup>I analyze this case in Corollary 2.

**Bayes factor rule.** I assume the agent switches models using a Bayes factor rule, which is a common model selection criterion in Bayesian statistics. It is a natural choice in this environment for the following reasons. First, it is a well known fact from the statistics literature that the Bayes factor rule automatically includes a penalty for including too much structure into the model and helps prevent overfitting (Kass and Raftery, 1995). This is consistent with the empirical observation that people in general favor simple models. If the model has a large parameter space and a diffuse prior, then each DGP in the model is assigned minimal weight and thinned out in the calculation of the Bayes factor as shown in (2), decreasing the likelihood of the whole model. If we evaluate the likelihood of models using the posteriors or the maximum likelihood estimates, then the likelihood ratio is less sensitive to the prior and does not punish complicated models as much. As I show in the next section, this feature of the Bayes factor is the main driving force behind the necessity of high prior tightness for global robustness. Second, the Bayes factor rule is flexible in that it could be easily formulated for any model and any outcome distributions, without imposing assumptions about the parametric structure of the models.<sup>14</sup> Finally, the Bayesian factor has a strong Bayesian flavor, so the agent maintains some form of consistency in belief updating and model switching.

## 2.4 Persistence

Given two models  $\theta$  and  $\theta'$ , the agent's model choice either eventually equals one of  $\theta$  and  $\theta'$  or oscillates forever between the two. To explore the forms of misspecified models that are likely to persist, we are most interested in situations where the agent starts with model  $\theta$  and eventually settles down with it and stops switching.

**Definition 1.** Model  $\theta$  *persist against*  $\theta'$  at priors  $\pi_0^\theta$  and  $\pi_0^{\theta'}$  if in the switcher's problem  $S = (\theta, \theta', \pi_0^\theta, \pi_0^{\theta'})$ , the model choice  $m_t$  eventually equals  $\theta$  with positive probability, i.e. there exists  $T > 0$  such that with positive probability,  $m_t = \theta$  for all  $t \geq T$ .

The interpretation of persistence is as follows. If  $\theta$  does not persist against  $\theta'$ , the competing model  $\theta'$  will be adopted by the agent infinitely many times almost surely. This implies that the long-term beliefs and behavior of the switcher can be starkly different from the predictions of an analyst who only knows the initial model  $\theta$ . If an underlying learning bias gives rise to a model that does not persist, we expect this bias to be non-stable. By contrast, if  $\theta$  persists against  $\theta'$ , then with positive probability, the switcher resembles a  $\theta$ -modeler in the long term, allowing us to use tools from the literature on misspecified learning to

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<sup>14</sup>Common alternative rules in statistics such as the BIC and the AIC are shown to approximate the Bayes factor under certain assumptions about the parametric family and the prior.



characterize her behavior. Moreover, it suggests that we could observe the stable existence of the underlying learning bias.

Note that persistence is prior-sensitive, since in principle a model could persist against some competing model at some priors but not the others. The prior plays a double role. First, the prior affects the agent’s behavior and thus endogenously affects the outcome realizations and how well models fit the data. Second, the prior also plays a direct part in the Bayes factor, as it is used as weights in the likelihood of a model.

### 3 Global and Local Robustness

This section defines and provides a full characterization of global and local robustness. I start the analysis in Section 3.2 by stating a characterization theorem for global and local robustness at some full-support prior. In Section 3.3, I illustrate a new technical challenge that arises because of model switching. I then characterize global and local robustness at fixed priors in Section 3.4.

#### 3.1 Definition

Persistence is defined relative to a competing model and a given set of priors. But which competing models would arise and what priors they would be assigned may be unpredictable. This motivates a robustness approach. In this section, I consider two robustness notions: global robustness that requires persistence against both local perturbations and paradigm shifts, while local robustness that requires persistence against local perturbations. Global robustness is very stringent by its definition, as it imposes no restrictions whatsoever over the competing model and the associated prior. This notion is more applicable if the agent has a good understanding of the problem, since coming up with new competing models may require knowledge and imagination, or if she is open-minded because of an innovation-friendly culture (such as the high-tech industry). On the contrary, local robustness is more applicable when the environment is complicated or the agent is conservative.

**Global robustness.** Let us start with a definition of global robustness.

**Definition 2** (Global robustness). Model  $\theta \in \Theta$  is *globally robust at prior*  $\pi_0^\theta$  if model  $\theta$  persists against every competing model  $\theta' \in \Theta$  at priors  $\pi_0^\theta$  and  $\pi_0^{\theta'}$  for every  $\pi_0^{\theta'} \in \Delta\Omega^{\theta'}$ .

Global robustness ensures that model  $\theta$  persists no matter what alternative model it is compared against and what prior is assigned to the alternative, as long as the agent starts



with a proper prior. Conversely, if  $\theta$  is not globally robust at any full-support prior, then one can find a competing model associated with some prior that replaces  $\theta$  infinitely often almost surely.

**Local robustness.** To define local robustness, we first need to properly quantify the distance between two arbitrary models  $\theta$  and  $\theta'$ . Since every model consists of a set of data-generating processes, a natural approach is to measure the distance between the corresponding sets of DGPs using the Prokhorov metric  $d_P$  and the Hausdorff metric  $d_H$ .<sup>15,16</sup>

To begin with, let us denote the DGP to which model  $\theta$  and parameter  $\omega$  correspond by  $Q^{\theta,\omega}$ . I define the distance between any two DGPs  $Q^{\theta,\omega}$  and  $Q^{\theta',\omega'}$  to be the maximum Prokhorov distance between the outcome distributions across all actions,

$$d(Q^{\theta,\omega}, Q^{\theta',\omega'}) := \max_{a \in \mathcal{A}} d_P(Q_a^{\theta,\omega}, Q_a^{\theta',\omega'}).$$

With this, the distance between model  $\theta$  and  $\theta'$  is then given by

$$d(\theta, \theta') := d_H \left( \{Q^{\theta,\omega}\}_{\omega \in \Omega^\theta}, \{Q^{\theta',\omega'}\}_{\omega' \in \Omega^{\theta'}} \right).$$

This metric allows us to define an  $\epsilon$ -neighborhood of  $\theta$ ,

$$N_\epsilon(\theta) := \{\theta' \in \Theta : d(\theta, \theta') < \epsilon\}. \quad (4)$$

In order for the agent to have similar predictions under models  $\theta$  and  $\theta'$ , the notion of local robustness also restricts the distance between the associated priors. Note that prior  $\pi_0^\theta$  and prior  $\pi_0^{\theta'}$  are defined on potentially different spaces, but each of them corresponds to a belief over the set of all DGPs. If we denote this mapping as  $\Gamma^\theta : \Delta\Omega^\theta \rightarrow \Delta(\Delta\mathcal{Y})^{\mathcal{A}}$ , then an  $\epsilon$ -neighborhood of prior  $\pi_0^\theta$  within the set of possible priors for  $\theta'$  is given by

$$N_\epsilon(\pi_0^\theta; \theta, \theta') := \left\{ \pi_0^{\theta'} \in \Delta\Omega^{\theta'} : d_P \left( \Gamma^\theta(\pi_0^\theta), \Gamma^{\theta'}(\pi_0^{\theta'}) \right) < \epsilon \right\}. \quad (5)$$

Now we are ready to state the definition of local robustness.

**Definition 3** (Local robustness). Model  $\theta \in \Theta$  is *locally robust at prior*  $\pi_0^\theta$  if there exists  $\epsilon > 0$  such that model  $\theta$  persists against every competing model  $\theta' \in N_\epsilon(\theta)$  at priors  $\pi_0^\theta$  and

<sup>15</sup>The Prokhorov metric measures the distance between any two probability distributions on the same metric space. For any two probability measures  $\mu$  and  $\mu'$  over  $\mathcal{Y}$ , the Prokhorov distance is given by  $d_P(\mu, \mu') := \inf \{\epsilon > 0 | \mu(Y) \leq \mu'(B_\epsilon(Y)) + \epsilon \text{ and } \mu'(Y) \leq \mu(B_\epsilon(Y)) + \epsilon \text{ for all } Y \subseteq \mathcal{Y}\}$ .

<sup>16</sup>The Hausdorff metric measures how far two subsets of the same metric space are from each other. For any two sets  $X$  and  $Z$ , their Hausdorff distance is  $d_H(X, Z) = \max\{\sup_{x \in X} d(x, Z), \sup_{z \in Z} d(X, z)\}$ .

$\pi_0^{\theta'}$  for all  $\pi_0^{\theta'} \in N_\epsilon(\pi_0^\theta; \theta, \theta')$ .

Local robustness requires that there exists some positive  $\epsilon$  such that a model persists against nearby models at nearby priors within the relevant  $\epsilon$ -neighborhoods. Hence, if model  $\theta$  is locally robust, it persists as long as the switcher only considers sufficiently close perturbations. By contrast, if  $\theta$  is not locally robust, then there is no chance that  $\theta$  would be adopted forever even if the agent only considers small changes.

### 3.2 Robustness at Some Prior

I first characterize models that are locally or globally robust for at least one full-support prior. Since I assume all priors are full-support, I drop this adjective from now on for convenience. Robustness at some prior is useful on its own, because it directly speaks to the question of which models can be robust—failing to be robust at some prior implies non-robustness under every initial condition.

It is instructive to start our analysis with a special case: which models can persist against a correctly specified model? It is a well known fact that under a correctly specified model, a learner assigns probability 1 to the true outcome distribution in the limit (Easley and Kiefer, 1988). It follows that such a model perfectly matches the data in the long term, and thus any model  $\theta$  that persists in its presence must also have perfect prediction accuracy in the limit. Since outcomes are endogenously generated by actions, this suggests that the agent, potentially after a lot of back-and-forth switching and belief updating, ends up playing a *self-confirming equilibrium* if she eventually adopts  $\theta$ . The formal definition of a self-confirming equilibrium is given below.

**Definition 4.** A strategy  $\sigma \in \Delta\mathcal{A}$  is a *self-confirming equilibrium* (SCE) under model  $\theta$  if there exists a supporting belief  $\pi \in \Delta\Omega^\theta$  such that the following conditions hold.

- (1) Optimality:  $\sigma$  is myopically optimal against  $\pi$ , i.e.  $\sigma \in \Delta A_m^\theta(\pi)$ .
- (2) Consistency:  $\pi$  is consistent at  $\sigma$  in that  $q^\theta(\cdot|a, \omega) \equiv q^*(\cdot|a)$  for all  $a \in \text{supp}(\sigma)$  and all  $\omega \in \text{supp}(\pi)$ .

When a self-confirming equilibrium is played and the agent holds a consistent belief, the prediction of model  $\theta$  is indistinguishable from the true DGP. Note that a SCE may well be inefficient—while consistency implies correct predictions about the payoff obtained in equilibrium, the model could have completely wrong predictions about the payoffs off path.

But persistence against a correct model implies more than the existence of a SCE—the SCE must also be stable and reachable from a full-support prior. In particular, the agent

should, with positive probability, end up playing *only* the equilibrium actions under model  $\theta$ . If non-SCE actions are played infinitely often, the Bayes factor would still diverge to infinity and result in an abandonment of model  $\theta$ . Note that on paths where  $\theta$  is adopted forever, a switcher eventually behaves no differently than a  $\theta$ -modeler. Thus, this stability condition can be stated in terms of a  $\theta$ -modeler, which can be further characterized based on primitives of model  $\theta$  because a  $\theta$ -modeler’s problem is independent from any model switching process.

**Definition 5.** Strategy  $\sigma \in \Delta A$  under  $\theta$  is *p-absorbing* if there exists a full-support prior  $\pi_0^\theta$  and some positive integer  $T$  such that, with positive probability, a  $\theta$ -modeler only plays actions in  $\text{supp}(\sigma)$  after period  $T$ .

I define this stability notion as p-absorbingness, where “p” means that the equilibrium is absorbing only with positive probability. P-absorbingness differs from existing stability notions of self-confirming equilibria in the literature. In particular, if SCE  $\sigma$  is p-absorbing, it does not imply that the  $\theta$ -modeler’s or the switcher’s action sequence converges to a single action in the support of  $\sigma$  or her action frequency converges to  $\sigma$ .<sup>17</sup> Rather, it allows for non-convergent behavior within the support of  $\sigma$ , but rules out the scenario where the modeler almost surely plays actions outside  $A$  infinitely often.<sup>18</sup> Although p-absorbingness is a relatively weak requirement, not all self-confirming equilibria are p-absorbing.<sup>19</sup> Note that while p-absorbingness implies the existence of some full-support prior that leads to the SCE being played by a  $\theta$ -modeler, in principle it is not necessary that the switcher actually starts with such a prior. This is because a switcher may go through a number of switches before she eventually settles down with a model, and those switches may happen to push her belief into a trajectory to the SCE even when her prior is not on the trajectory. I conclude the analysis for this special case with Lemma 1.

**Lemma 1.** *If model  $\theta$  persists against a correctly specified model  $\theta'$  at some priors  $\pi_0^\theta$  and  $\pi_0^{\theta'}$ , then there exists a p-absorbing SCE under  $\theta$ .*

On its face, this lemma provides only a necessary condition for global robustness. On one hand, the condition in Lemma 1 appears not useful for characterizing of local robustness, because this concept only requires persistence against local perturbations, and most models,

<sup>17</sup>For example, p-absorbingness is weaker than the stability notion proposed by Fudenberg et al. (2021). By their definition, a pure equilibrium  $a^*$  under  $\theta$  is stable if for every  $\kappa \in (0, 1)$ , there exists a belief  $\pi \in \Delta \Omega^\theta$  such that for any prior  $\pi_0^\theta$  sufficiently close to  $\pi$ , the dogmatic modeler’s action sequence  $a_t$  converges to  $a^*$  with probability larger than  $\kappa$ . They do not define a stability notion for a mixed equilibrium.

<sup>18</sup>Indeed, a dogmatic modeler’s action may never converge even when she eventually only plays the actions in the support of a p-absorbing SCE (see Example 5 in Appendix C).

<sup>19</sup>If there exists an action that is outside the support of the SCE but optimal against the equilibrium belief, then playing that action can drive the agent away from the SCE (see Example 6 in Appendix C).

if misspecified, are fairly distant away from a correctly specified model. On the other hand, it is unclear whether the condition in Lemma 1 would be sufficient for global robustness, because persistence against a correctly specified does not immediately imply persistence against all other competing models. Surprisingly, as I show in Theorem 1, the existence of a  $p$ -absorbing SCE is both necessary for local robustness at some prior and sufficient for global robustness at some prior, which equates the two robustness notions provided prior flexibility.

**Theorem 1.** *The following statements are equivalent:*

- (i) *Model  $\theta$  is locally robust at some prior.*
- (ii) *Model  $\theta$  is globally robust at some prior.*
- (iii) *There exists a  $p$ -absorbing SCE under model  $\theta$ .*

First, Theorem 1 provides a foundation for the persistence of certain types of misspecified models. It reveals the equivalence between local/global robustness at some prior and high asymptotic accuracy, as captured by the existence of a  $p$ -absorbing SCE. Intuitively, a model can persist against any arbitrary competing model as long as it leads to a stable equilibrium at which the model predictions are indistinguishable from the truth. It is worth emphasizing that this equivalence does not depend on switching threshold  $\alpha$  (as long as  $\alpha > 1$ ), meaning that the sets of models that can be locally and globally robust are the same for a stubborn switcher and a less stubborn one. Therefore, the switching threshold may only affect model robustness through changing the set of supporting priors.

Second, the equivalence between (i) and (ii) offers a new perspective for understanding local and global robustness. If a model fails to be globally robust, the switcher need not go far to find an attractive alternative—models that do not persist against paradigm shifts are also vulnerable to local changes. The intuition lying behind this result is quite simple. Although the agent is restricted to explore only local perturbations, such explorations are unconstrained and can be made towards the direction of being more correct. Specifically, for any model  $\theta$ , we could construct a neighbor competing model  $\theta'$  within its  $\epsilon$ -neighborhood such that  $\theta'$  outperforms  $\theta$  consistently unless  $\theta$  induces a self-confirming equilibrium. To do this, we simply take the predictions of  $\theta'$  to be a convex combination between the predictions of  $\theta$  and the true DGP for every action in  $\mathcal{A}$ . Since the Kullback-Leibler (KL henceforth) divergence between any two distributions is convex, the prediction of the mixture model  $\theta'$  yields a strictly lower KL divergence than that of model  $\theta$  unless the agent plays a self-confirming equilibrium.<sup>20</sup>

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<sup>20</sup>The Kullback-Leibler divergence of a density  $q$  from another density  $q'$  is given by  $D_{KL}(q \parallel q') =$

Third, comparing Theorem 1 and Lemma 1, we learn that the demanding notion of global robustness amounts to the requirement that  $\theta$  persists against one arbitrary correctly specified model at some prior. Provided that  $\theta$  can beat a competing model that assigns a tiny probability to the true DGP, it also has the potential to beat one that assigns probability 1 to the true DGP, or any model with arbitrarily complex parameter space. Conversely, models that fail to be globally robust do not persist in the long term as long as the agent considers any correctly specified model. Hence, an immediate corollary is that any correctly specified model is globally robust since a model must persist against itself.<sup>21</sup>

More importantly, misspecified models can be locally and globally robust as well. Besides correct specification, Corollary 1 provides another sufficient condition for global robustness, which can be easily verified by computing the set of all SCEs induced the model.

**Corollary 1.** *Model  $\theta$  is locally/globally robust at some prior if any of the following is true:*

- (i) *Model  $\theta$  is correctly specified.*
- (ii) *There exists a quasi-strict SCE under  $\theta$ .*

A self-confirming equilibrium  $\sigma$  is *quasi-strict* if there exists a supporting belief  $\pi$  such that any action outside the support of  $\sigma$  is strictly suboptimal against  $\pi$ , i.e.  $\text{supp } \sigma = A_m^\theta(\pi)$ . A strict SCE is simply a pure quasi-strict SCE. I show that any self-confirming equilibrium is p-absorbing if it is quasi-strict. Intuitively, quasi-strictness ensures that when the agent holds a belief sufficiently close to equilibrium supporting belief, he finds it strictly optimal to play the equilibrium actions; meanwhile, the self-confirming property implies that his belief never leaves a small neighborhood of the supporting belief when the agent plays the equilibrium actions.

### 3.3 Self-Defeating Models and Traps

The characterization in Theorem 1 is clean and intuitive. From a high level, p-absorbingness ensures that the SCE is reachable from some full-support prior, and the self-confirming property ensures that model  $\theta$  makes perfect predictions in the limit and thus persists against any competing model. However, this rough intuition leaves out new interesting challenges introduced by model switching. Such challenges are inherent to the multiple-model learning

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$\int_Y q \ln(q/q') \nu(dy)$ . The KL divergence is an asymmetric non-negative distance measure between  $q$  and  $q'$ , which is minimized to zero if and only if  $q$  and  $q'$  coincide almost everywhere. It is convex in the following sense: for any two pairs of densities  $(q_1, q_2)$  and  $(q'_1, q'_2)$  and any  $\gamma \in [0, 1]$ , we have  $D_{KL}(\lambda q_1 + (1 - \lambda)q_2 \parallel \lambda q'_1 + (1 - \lambda)q'_2) \leq \lambda D_{KL}(q_1 \parallel q'_1) + (1 - \lambda)D_{KL}(q_2 \parallel q'_2)$ .

<sup>21</sup>Notice that the likelihood ratio between one model and itself is always 1.

$q^\theta(1 a, \omega)$	$\omega^1$	$\omega^2$	$q^{\theta^*}(1 a, \omega)$	$\omega^*$
$a^1$	0.5	0.3	$a^1$	0.5
$a^2$	0.4	0.4	$a^2$	0.5

Table 2: Initial model  $\theta$  and competing model  $\theta'$  in Example 1.

framework and thus may be of independent interest to future research pursuits on problems other than persistence and robustness.

In general, for a dogmatic modeler, both his behavior and beliefs are endogenous and may mutually influence each other; for a switcher, in addition to behavior and beliefs within each model, the model choice is also endogenous and all three endogenous objects may mutually influence each other. This interaction can cause problems that prevent a model from being locally/globally robust at a given prior even if the model admits a p-absorbing SCE. In particular, the outcome realizations that lead a dogmatic modeler to the SCE may in fact trigger a switch away from model  $\theta$ , rendering its adoption to be *self-defeating*. I illustrate this issue in Example 1. For simplicity, in Example 1 I take the competing model to be the true DGP, but a similar phenomenon can occur with a competing model arbitrarily close to the initial model.

**Example 1** (Self-defeating Models). In each period, an agent chooses from two tasks  $a_t \in \{a^1, a^2\}$  and observes the outcome/payoff of the chosen task  $y_t \in \{0, 1\}$ , where 0 represents failure and 1 represents success. The true DGP prescribes that successes and failures happen with equal probability 0.5 for either task. Hence, the agent would be indifferent between the tasks if the true DGP was known.

The agent holds a subjective model  $\theta$  that presumes the success rate may depend on both the task type and his luck  $\omega \in \Omega^\theta = \{\omega^1, \omega^2\}$ , where  $\omega^1$  represents good luck and  $\omega^2$  represents bad luck (see Table 2). Under model  $\theta$ , the agent believes Task 1 is risky and success occurs more often if he is lucky, while Task 2 is safe and its outcome is independent from his luck. Besides, the agent is overall *pessimistic* under  $\theta$  because the assumed success rate is always (weakly) lower than the true level. The agent has a uniform prior over his luck, i.e.  $\pi_0^\theta(\omega_1) = 0.5$ , and his policy under  $\theta$  prescribes Task 1 iff good luck is more likely than bad luck, i.e.  $\pi_t^\theta(\omega_1) \geq 0.5$ .<sup>22</sup>

Suppose the agent is entertaining the competing model  $\theta^*$  that solely consists of the true DGP. Under model  $\theta^*$ , the agent is indifferent and always chooses Task 1 (see Table 2). We consider the case where his switching threshold is given by  $\alpha = 1.1$ .

<sup>22</sup>The uniform prior is assumed for simple exposition. The mechanism of this example does not depend on the fact that the agent starts off being exactly indifferent between the tasks.

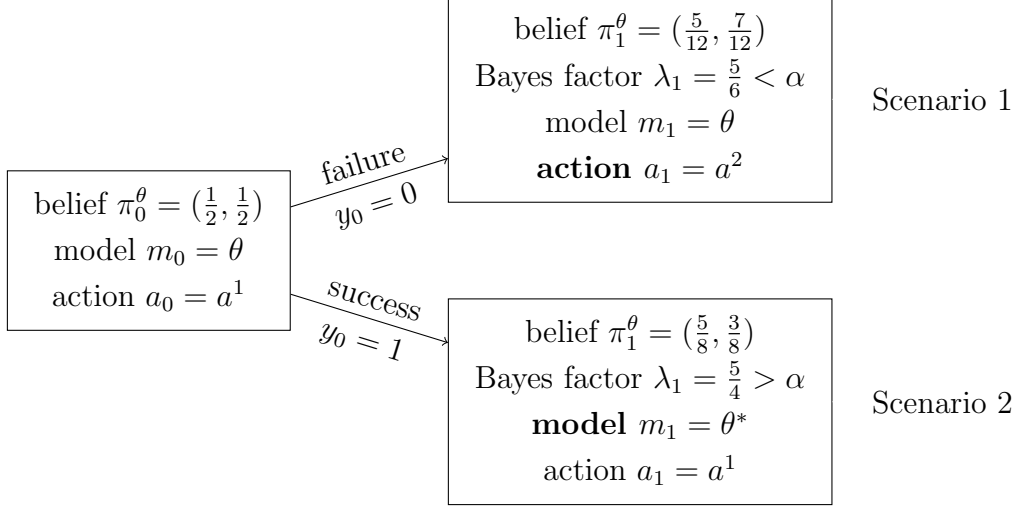


Figure 1: Scenario analysis in Example 1.

Choosing Task 1 is a strict self-confirming equilibrium under  $\theta$ , supported by a degenerate belief at  $\omega^1$ . To see why, note that the risky task is strictly optimal when the agent believes his has good luck; meanwhile, the superstitious belief of good luck offsets the overall pessimism and thus the agent has a correct prediction about the success rate. We know from Corollary 1 that this SCE is p-absorbing and model  $\theta$  is globally robust.

However, it turns out that model  $\theta$  does not persist against model  $\theta^*$  at the given priors, because the outcome realization that leads to choosing the risky task  $a^1$  also triggers a model switch. As illustrated in Figure 1, if the first realized outcome is a failure, the agent believes that he is more likely to have bad luck and thus switches his task choice to the safe task  $a^2$  (Scenario 1); if the first realized outcome is a success, the agent switches his model choice to the more optimistic model  $\theta^*$  in the next period (Scenario 2).

In Scenario 1, the safe choice causes the agent to stop updating on his luck and thus the agent never switches back to the risky task  $a^1$  as long as he remains under model  $\theta$ . Since  $\theta$  is incorrectly pessimistic when  $a^2$  is chosen, the agent eventually switches to the correct model  $\theta^*$  and enters Scenario 2. Once Scenario 2 occurs, the agent switches back to the overall pessimistic model  $\theta$  only under the circumstance that he observes more failures than successes. But then the resulted posterior  $\pi_t^\theta$  must assign more probability to bad luck than good luck, again inducing the agent to choose the safe task  $a^2$ , bringing the agent back to Scenario 1. Eventually, the agent must abandon model  $\theta$  and adopt the competing model  $\theta^*$  forever. Therefore,  $\theta$  does not persist against  $\theta^*$  in this environment.

What are the root causes of the self-defeating result in Example 1? First, the agent's model choice and his belief on luck are tightly correlated given the particular structure of the models in Example 1. In order for the agent to choose the risky task, he must believe in



good luck more than bad luck, but the successes needed to induce this belief inevitably lead to a switch to the more optimistic competing model. Second, the agent’s task choice and model choice are too sensitive to the early outcome realizations. Since the agent’s prior  $\pi_0^\theta$  is far away from the SCE supporting belief and the switching threshold  $\alpha$  is relatively low, a single observation is powerful enough to sway the agent’s task choice or the model choice. Last but not least, the safe choice constitutes an absorbing *trap* in model  $\theta$  because it causes the agent to stop updating his belief within  $\theta$ . Indeed, the agent can never choose the risky option under the same model again once the agent enters the trap.

The above diagnosis points out two different directions for breaking the self-defeating result. First, the agent may not fall into the trap if he starts with a prior sufficiently close to the SCE supporting belief. Specifically, if the agent starts out assigning more probability to good luck, then his task choice will be less sensitive to early failures; at the same time, his initial model becomes overall less pessimistic and thus his model choice will be less sensitive to early successes. The proof of Theorem 1 uses precisely this idea to show that there exists a prior  $\pi_0^\theta$  so that the self-defeating behavior does not arise and we can achieve local and global robustness.

The second direction is to remove any traps from the model while holding the prior fixed. Suppose model  $\theta$  predicts that the success rate still depends on the agent’s luck even slightly for the safe task, then the agent does not stop updating on his luck upon choosing the safe task. If so, there is no longer a trap that locks in the agent’s task choice. Consequently, model  $\theta$  is not self-defeating because we can always construct a finite sequence of outcomes to make the agent eventually confident in model  $\theta$  and his good luck (this is non-trivial and requires proof). To rule out the trap in Example 1, we can assume the model is identifiable, as defined below.

**Definition 6.** Model  $\theta$  is *identifiable* if the predictions of different parameters in  $\theta$  are different for each action, i.e.  $q^\theta(\cdot|a, \omega) \neq q^\theta(\cdot|a, \omega')$  for all distinct  $\omega, \omega' \in \Omega^\theta$  and all  $a \in \mathcal{A}$ .

It turns out non-identifiability is not the only cause of traps. The other type of traps are more technical and arise when the p-absorbing SCE under model  $\theta$  is not quasi-strict. In this case, at any supporting belief of such a p-absorbing SCE, there exists some action that is optimal but not self-confirming. Under certain policies  $f^\theta$ , these actions can also act like traps—once they are played on path, the agent cannot go back to play the SCE under model  $\theta$ .

Definition 7 collects the two no-trap conditions. In the next subsection, I characterize local and global robustness at a fixed prior under the no-trap conditions.



$q^\theta(1 a, \omega)$	$\omega^1$	$\omega^2$	$q^{\theta'}(1 a, \omega)$	$\omega^1$	$\omega^2$	$q^{\theta''}(1 a, \omega)$	$\omega^3$
$\bar{a}$	0.5	0.3	$\bar{a}$	0.5	$0.3+\epsilon$	$\bar{a}$	0.5

Table 3: Initial model  $\theta$  and competing model  $\theta'$  in Example 2.

**Definition 7.** Model  $\theta$  has *no traps* if (i)  $\theta$  is identifiable and (ii) all p-absorbing SCE (if exists) under  $\theta$  are quasi-strict.

### 3.4 Robustness at a Fixed Prior

Theorem 1 characterizes *which models* can be locally and globally robust based on the induced equilibrium, but it remains silent about *under which priors* these models are locally or globally robust. The analysis about self-defeating models in the preceding subsection suggests that there is no good answer to this problem when there are traps in the model, except that we know such priors do exist. When there are no traps, it is natural to conjecture that a model that admits a p-absorbing SCE is locally and globally robust at all priors. In this subsection, I show that while this conjecture is correct for local robustness, global robustness requires the prior to be tight and concentrated around the p-absorbing SCEs.

Let us start by analyzing the simplest case where the outcomes are exogenously generated, or equivalently,  $\mathcal{A}$  contains a single action  $\bar{a}$ . As illustrated by Example 2, in this special case, a model is locally robust at any prior if and only if its predictions contain the true outcome distribution; by contrast, a model is globally robust at a given prior if and only if the prior assigns probability weakly higher than  $1/\alpha$  to the true outcome distribution.

**Example 2** (Exogenous data). Suppose the agent works on a single task  $\mathcal{A} = \{\bar{a}\}$  and observes the failure/success of the task,  $\mathcal{Y} = \{0, 1\}$ . As in Example 2, the true DGP prescribes that the success rate is 0.5. The agent holds a subjective model  $\theta$ , under which he presumes the success rate depends on his luck  $\omega \in \Omega^\theta = \{\omega^1, \omega^2\}$ , where  $\omega^1$  represents good luck and  $\omega^2$  represents bad luck (see Table 2). Note that model  $\theta$  is correctly specified because it predicts the true success rate of 0.5 when the agent believes in good luck. Corollary 1 immediately implies that model  $\theta$  is both locally and globally robust.

Model  $\theta$  is locally robust at all full-support priors. To see why, let us assume the agent entertains a nearby competing model  $\theta'$  that predicts a success rate of  $0.3 + \epsilon$  under bad luck. When  $\epsilon > 0$  is small, model  $\theta'$  is slightly more optimistic than model  $\theta$ . Since there is a single action, it is straightforward to calculate the Bayes factor,

$$\frac{\ell_t(\theta')}{\ell_t(\theta)} = \frac{\pi_0^{\theta'}(\omega^1)0.5^t + \pi_0^{\theta'}(\omega^2)(0.3 + \epsilon)^{S_t}(0.7 - \epsilon)^{F_t}}{\pi_0^\theta(\omega^1)0.5^t + \pi_0^\theta(\omega^2)0.3^{S_t}0.7^{F_t}},$$

where  $S_t$  and  $F_t$  are the number of successes and failures observed before period  $t$  and  $S_t + F_t = t$ . As the agent accumulates more evidence, the likelihood of bad luck eventually vanishes as compared that of good luck in both models. In the limit, the Bayes factor is completely determined by the prior ratio  $\pi_0^{\theta'}(\omega^1)/\pi_0^\theta(\omega^1)$ , which is bounded above by  $\alpha > 1$  when the priors are sufficiently close. This argument can be generalized to other nearby competing models.

In stark contrast, model  $\theta$  is globally robust at a given prior if and only if the prior assigns probability weakly higher than  $1/\alpha$  to good luck, i.e.  $\pi_0^\theta(\omega^1) \geq 1/\alpha$ . To illustrate, suppose the agent entertains the true DGP  $\theta''$  as the competing model. The Bayes factor is given by

$$\lambda_t = \frac{\ell_t(\theta'')}{\ell_t(\theta)} = \frac{0.5^t}{\pi_0^\theta(\omega^1)0.5^t + \pi_0^\theta(\omega^2)0.3^{S_t}0.7^{F_t}}.$$

When  $\pi_0^\theta(\omega^1) \geq 1/\alpha$ , the Bayes factor  $\lambda_t$  is bounded above by  $\alpha$  for any history, so the agent never switches to the competing model. Intuitively, this is because the goodness of fit of model  $\theta$  is at least  $1/\alpha$ -times as large as the true DGP, but a switch is only triggered when the Bayes factor is strictly larger than  $\alpha$ . On the other hand, if  $\pi_0^\theta(\omega^1) < 1/\alpha$ , the agent must abandon model  $\theta$  at some point. Since the likelihood of bad luck eventually vanishes, the Bayes factor  $\lambda_t$  converges to  $1/\pi_0^\theta(\omega^1)$ , which is strictly larger than  $\alpha$ .

The key driving force behind Example 2 is that the Bayes factor rule acts like the *Occam's Razor*—it favors parsimonious models with tight priors and punishes complex models with diffuse priors. When the agent weighs a model and its local perturbation, their priors are similarly tight around similar DGPs. Sticky switching ( $\alpha > 1$ ) then implies that the agent is reluctant to switch to the nearby competing model. However, model  $\theta$  under a diffuse prior can have a significantly worse fit than a model concentrated around the true DGP. In this case, a forever switch to the competing model is inevitable. Notably, as switching becomes stickier ( $\alpha$  grows larger), the agent has a higher tolerance for diffuse priors.

When outcomes are endogenously generated by actions, an analogous condition for global robustness is that the prior assigns probability weakly higher than  $1/\alpha$  to the parameters that are in the support of a SCE supporting belief. But the validity of this generalization is *a priori* unclear because of two complications. First, contrasting the case with exogenous data, here the parameter(s) in the support of a SCE supporting belief may not predict the true outcome distribution when non-SCE actions are being played. So in general we cannot directly bound the Bayes factor from above using the prior ratio as in Example 2. Second, when there are multiple p-absorbing SCEs, the supports of different SCE supporting beliefs may not overlap. Hence, it is unclear whether the prior should be concentrated around one of the supporting beliefs or the whole set of the supporting beliefs.

Despite the complications, I show in Theorem 2 that when model  $\theta$  has no traps, prior tightness is sufficient and necessary for global robustness at a given prior. To state the result, let us denote by  $C^\theta$  the set of parameters in  $\theta$  that support at least one p-absorbing SCE. Formally, for each  $\omega \in C^\theta$ , there exists a p-absorbing SCE under  $\theta$  that is supported by the degenerate belief  $\delta_\omega$ . For convenience, we will call  $C^\theta$  the set of *consistent* parameters in  $\theta$ . Notice that model  $\theta$  admits a p-absorbing SCE if and only if  $C^\theta$  is not empty.<sup>23</sup>

**Theorem 2.** *Suppose model  $\theta$  has no traps, then the following are true:*

- (i) *Model  $\theta$  is locally robust at all priors if and only if  $C^\theta \neq \emptyset$ .*
- (ii) *Model  $\theta$  is globally robust at prior  $\pi_0^\theta$  if and only if  $C^\theta \neq \emptyset$  and  $\pi_0^\theta(C^\theta) \geq 1/\alpha$ .*
- (iii) *Model  $\theta$  is globally robust at all priors if and only if  $C^\theta = \Omega^\theta$ .*

While Theorem 1 unifies local and global robustness in terms of *which* models can be robust, Theorem 2 clarifies the distinction between these notions in terms of *when* these models are robust—local robustness is prior-free, but global robustness is prior-sensitive. Theorem 2 provides an exact quantification of how concentrated the prior must be on  $C^\theta$  in order to support global robustness. In particular, the tightness of the prior (measured by the probability assigned to  $C^\theta$ ) multiplied by the stickiness of switching (measured by  $\alpha$ ) must be weakly larger than 1. It follows that if model  $\theta$  admits a p-absorbing SCE, then at any fixed full-support prior,  $\theta$  is globally robust as long as switching is sticky enough and  $\alpha$  sufficiently high. If we fix the switching threshold  $\alpha$ , global robustness holds at all priors if and only if  $C^\theta = \Omega^\theta$ . Conversely, when condition  $C^\theta = \Omega^\theta$  fails, then at any full-support prior, global robustness is lost if switching is easy enough and  $\alpha$  sufficiently close to 1.

Taken together, Theorems 1 and 2 draw an interesting comparison between misspecified models and correctly specified models in terms of robustness properties. On one hand, all correctly specified models are globally robust at some prior since they have the highest possible asymptotic accuracy, which is achieved by only a subset of misspecified models. On the other hand, misspecified models can be globally robust at more priors if they have a simple structure or induce a large set of SCEs. In fact, under identifiability, misspecified models can easily satisfy  $C^\theta = \Omega^\theta$  and become globally robust at all priors, but the only correctly specified model that satisfies this condition is the true DGP  $\theta^*$ .<sup>24</sup> I illustrate this interesting wedge in Application 5.1 by showcasing the power of a false but simple narrative.

<sup>23</sup>To see why  $C^\theta$  collects all p-absorbing SCEs, note that when  $\theta$  is identifiable, no parameters predict the same outcome distribution, and thus the supporting belief of any SCE must be pure.

<sup>24</sup>If  $\theta$  is correctly specified, then there exists  $\omega^* \in \Omega^\theta$  such that  $q^\theta(\cdot|a, \omega^*) = q^*(\cdot|a)$  for all  $a \in \mathcal{A}$ . But identifiability implies that for any  $\omega \in \Omega^\theta$  and  $\omega \neq \omega^*$ , we must have  $q^\theta(\cdot|a, \omega) \neq q^*(\cdot|a)$  for all  $a \in \mathcal{A}$ . Therefore, at most one parameter, namely  $\omega^*$ , can support a SCE, and thus  $\Omega^\theta = C^\theta$  implies that  $\Omega^\theta = \{\omega^*\}$ .

What happens if switching is perfectly non-sticky and  $\alpha$  is exactly 1? In this extreme case, the existence of a p-absorbing SCE is no longer sufficient for either local robustness or global robustness at some full-support prior. Corollary 2 provides an alternative characterization of local and global robustness in place of Theorems 1 and 2.

**Corollary 2.** *Suppose model  $\theta$  has no traps, then model  $\theta$  is locally or globally robust when  $\alpha = 1$  if and only if  $C^\theta = \Omega^\theta$ .*

Corollary 2 has three implications. First, the set of models that can be locally robust or globally robust at some prior remains unchanged when the switching threshold  $\alpha$  is strictly larger than 1 but shrinks discontinuously at  $\alpha = 1$ . Second, the gap between local and global robustness has closed when switching is perfectly non-sticky, since both require the prior to be fully concentrated around p-absorbing SCEs. Second, this result, combined with Theorem 2, uncovers the equivalence between two strong notions of robustness, i.e. robustness when switching is non-sticky and robustness at all priors, both of which are characterized by a simple condition,  $C^\theta = \Omega^\theta$ .

## 4 Constrained Local Robustness

This section relaxes the requirement of local robustness by disallowing the agent to consider nearby competing models outside a constrained family of models. The motivation for the constraint comes from the observation that decision makers often do not abandon their basic framework of assumptions and principals when coming up with nearby competing theories.<sup>25</sup> Rather, they maintain fundamental assumptions and consider structured and directed changes to their original model. With this constraint, I show that a model can be locally robust even if it does not give rise to a self-confirming equilibrium. Rather, the model only needs to induce a p-absorbing Berk-Nash equilibrium that satisfies a local dominance property. As the family of models grows larger, however, the local dominance property becomes more demanding and eventually morphs into the self-confirming property.

### 4.1 Definition

I begin with formalizing the parametric structure of models. Among other ways, I find it particularly convenient to work with a *meta-model*—the set of every data-generating process that might be considered possible by the agent. To do this, take a profile of data-generating

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<sup>25</sup>For example, Kuhn argues that science experiences alternating phases of normal science and revolutions. While revolutions entail paradigm shifts, he argues that “normal science, ..., often suppresses fundamental novelties because they are necessarily subversive of its basic commitments” (Kuhn, 1996, p. 5).

processes,  $\{q(\cdot|a, \omega)\}_{a \in \mathcal{A}, \omega \in \Omega^{\bar{\theta}}}$ , that is uniformly continuous over  $\Omega^{\bar{\theta}}$  for all  $a \in \mathcal{A}$ . This constitutes a meta-model  $\bar{\theta}$  with  $\Omega^{\bar{\theta}}$  being the *meta-parameter set*. The set  $\Omega^{\bar{\theta}}$  can be any subset of a Euclidean space without the restriction of being finite or bounded. The meta-model  $\bar{\theta}$  then generates an affiliated family of models  $\Theta^{\bar{\theta}}$ , each element of which is a subset of the meta-model.

**Definition 8.** The  $\bar{\theta}$ -family of models is the set  $\Theta^{\bar{\theta}} \subseteq \Theta$  such that

$$\Theta^{\bar{\theta}} := \{\theta \in \Theta : q^{\theta}(\cdot|a, \omega) \equiv q(\cdot|a, \omega) \text{ for all } \omega \in \Omega^{\theta} \subseteq \Omega^{\bar{\theta}} \text{ and all } a \in \mathcal{A}\}. \quad (6)$$

Two models  $\theta$  and  $\theta'$  belong to the same family generated by  $\bar{\theta}$  if they share the same mapping from parameters to DGPs as  $\bar{\theta}$  but differ in their parameter sets. We can then conveniently measure the distance between any  $\theta$  and  $\theta'$  by the Hausdorff distance between their parameter sets,  $\Omega^{\theta}$  and  $\Omega^{\theta'}$ . Formally, the definition of an  $\epsilon$ -neighborhood of  $\theta$  can be modified from (4) to

$$N_{\epsilon}^{\bar{\theta}}(\theta) := \left\{ \theta' \in \Theta^{\bar{\theta}} : d_H(\Omega^{\theta}, \Omega^{\theta'}) < \epsilon \right\}. \quad (7)$$

Note well that this parametric definition of nearby models is different from our previous definition based on non-parametric distance measures over sets of DGPs (see (4)), and the difference is not merely technical. Conceptually, the meta-model gives meaningful structure to the induced family of models, and thus a proper metric should measure not only the similarity in model predictions but also the distance between the underlying ideas. The definition above precisely captures this idea. Two parameters  $\omega$  and  $\omega'$  in the meta-parameter set  $\Omega^{\bar{\theta}}$  can be distant from each other but still have extremely similar or even identical predictions. The converse is not true: if  $\omega$  and  $\omega'$  are close in  $\Omega^{\bar{\theta}}$ , it follows from the continuity of  $q$  that they must predict similar data-generating processes.

The distance measure over priors is also significantly simpler than that in (5), because there is no need to map the priors to distributions of DGPs. The  $\epsilon$ -neighborhood of any  $\pi \in \Delta\Omega^{\bar{\theta}}$  is simply given by

$$N_{\epsilon}^{\bar{\theta}}(\pi) := \{\pi' \in \Delta\Omega^{\bar{\theta}} : d_P(\pi, \pi') < \epsilon\}. \quad (8)$$

A model is locally robust within the  $\bar{\theta}$ -family if it persists against every nearby model within that family under nearby priors. The formal definition mirrors Definition 3.

**Definition 9** (Constrained local robustness). Model  $\theta \in \Theta^{\bar{\theta}}$  is  $\bar{\theta}$ -constrained locally robust at prior  $\pi_0^{\theta}$  if there exists  $\epsilon > 0$  such that  $\theta$  persists against every model  $\theta' \in N_{\epsilon}^{\bar{\theta}}(\theta)$  at priors  $\pi_0^{\theta}$  and  $\pi_0^{\theta'}$  for all  $\pi_0^{\theta'} \in N_{\epsilon}^{\bar{\theta}}(\pi_0^{\theta})$ .

It is worth emphasizing that constrained local robustness is a flexible concept. One might think that since all models within the same family differ only in their parameter sets, the agent is limited to expanding, downsizing, or replacing the elements of the parameter set of her initial model. But this is not entirely true. By specifying different meta-models, we allow the agent to access vastly different sets of competing models. Before writing down a meta-model, we can modify the parameter set of model  $\theta$  to include additional dimensions without changing the predictions of model  $\theta$ . The addition of these new dimensions allows the agent to re-assess the validity of the implicit assumptions and perspectives built in her original model when considering competing models.

For concreteness, I use Example 3 to illustrate the flexibility of the approach.

**Example 3** (Misspecifications in portfolio choice). Consider an investor who chooses a portfolio from  $N$  stocks. Her action  $a_t = (a_t^1, \dots, a_t^N) \in \mathcal{A} = \{0, 1\}^N$  specifies whether to invest in each of the  $N$  stocks. At the end of each period, she obtains a CARA utility of  $u(a_t, y_t) = 1 - e^{-\sum_{n=1}^N a_t^n y_t^n}$ , where  $y_t^n$  is the return of stock  $n$ . The true return of stock  $n$  is  $y_t^n = r^n + \xi_t^n$ , where  $r^n$  is the average return of each stock  $n$  and  $(\xi_t^1, \dots, \xi_t^N)$  follows a multivariate normal distribution with zero mean and a covariance matrix  $\Sigma = (v^{ij})$ .

The investor's model  $\theta$  is very simple. She presumes that every stock has identically distributed and uncorrelated returns  $y_t^n = r + \xi_t^n$ , where  $r$  measures the average return of all stocks and  $\xi_t \sim N(\mathbf{0}, v \cdot \mathbf{I}_N)$  for some constant  $v > 0$ . She conducts Bayesian updating to learn about  $r$  and  $v$  and has a finite parameter space  $\Omega^\theta \subseteq \mathbb{R}_+^2$ .

Is the investor's model persistent? The answer to this question may depend on which simplifying assumption she is willing to drop when considering competing models. For example, the investor may maintain her assumption of i.i.d. returns and investigate if the market is more volatile than what she initially imagines. In this case, we can specify the meta-model  $\bar{\theta}$  to have an expanded parameter space along the variance,  $\bar{\Omega}^\theta = \Omega_r^\theta \times \mathbb{R}_+$ .

Alternatively, the investor may question the validity of her assumption of identically distributed returns while maintaining the assumption that returns are uncorrelated. We can accommodate this consideration by writing the parameter space of  $\theta$  equivalently as  $\Omega^\theta = \{((r^n), (v^{ij})) : r^i = r^j, v^{ii} = v^{jj}, v^{ij} = 0 \text{ and } (r^i, v^{ii}) \in \Omega^\theta \text{ for all } i \neq j\}$ . Note that this relabeling does not alter the predictions of model  $\theta$ , but allows us to embed  $\theta$  into the larger parametric family generated by the meta-model  $\bar{\theta}$  with the following meta-parameter space,

$$\bar{\Omega}^\theta = \underbrace{\mathbb{R}_+ \times \dots \times \mathbb{R}_+}_{r^1, r^2, \dots, r^N} \times \underbrace{\mathbb{R}_+ \times \dots \times \mathbb{R}_+}_{v_{11}, v_{22}, \dots, v_{NN}}.$$

Of course, the investor may also be open to all possibilities within the normal distribution

framework, in which case he further drops the no-correlation assumption and consider a meta-parameter space  $\Omega^\theta = \mathbb{R}_+^{2N} \times \mathbb{R}^{N(N-1)}$ .

## 4.2 Characterization

In this subsection, I provide necessary conditions and sufficient conditions for constrained local robustness. New challenges emerge as a result of the constraint we impose over the competing models. First, models sufficiently close to a misspecified model must also be misspecified, which prevents us from using Lemma 1. Second, contrasting the case of local robustness, it is now infeasible to perturb model predictions unanimously towards the direction of the true DGP, since the perturbed model may not be in the constrained family. Therefore, there is no reason to believe that constrained locally robust models must induce a self-confirming equilibrium.

**Necessary conditions.** We can still take inspiration from the characterization of local and global robustness. For model  $\theta$  to be constrained locally robust, then at least in the limit, the agent can never find a nearby model within the same family more attractive. That is, we can break down the question to two parts—the identification of a proper equilibrium concept and a good order of prediction accuracy.

Characterizing the asymptotic behavior of a dogmatic modeler is one of the central questions in the misspecified learning literature. A major finding of the literature is that whenever the modeler’s behavior stabilizes, the limit behavior must constitute a Berk-Nash equilibrium that I define below (Esponda and Pouzo, 2016; Esponda et al., 2019).

**Definition 10.** Strategy  $\sigma \in \Delta\mathcal{A}$  is a *Berk-Nash equilibrium* (BN-E) under  $\theta$  if there exists a supporting belief  $\pi \in \Delta\Omega^\theta(\sigma)$  such that the following conditions hold.

- (i) Optimality:  $\sigma$  is myopically optimal against  $\pi$ , i.e.  $\sigma \in \Delta A_m^\theta(\pi)$ .
- (ii) KL-minimization: every  $\omega$  in  $\text{supp } \pi$  is a minimizer of the  $\sigma$ -weighted KL divergence,

$$\omega \in \arg \min_{\omega' \in \Omega^\theta} \sum_{\mathcal{A}} \sigma(a) D_{KL}(q^*(\cdot|a) \parallel q^\theta(\cdot|a, \omega')).$$

For convenience, denote by  $\Omega^\theta(\sigma)$  the set of all KL-minimizers at  $\sigma$  under  $\theta$ . Intuitively, these parameters yield the closest match to the true DGP among the parameters of model  $\theta$  when the agent plays  $\sigma$ . Besides myopic optimality, a Berk-Nash equilibrium requires that the supporting belief  $\pi$  takes support on the KL-minimizers. Every model admits at least



one Berk-Nash equilibrium (Esponda and Pouzo, 2016). Note that a SCE is a special form of a BN-E—all consistent parameters must also minimize the KL divergence.

Next, I turn to the choice of the prediction accuracy order. If model  $\theta$  is constrained locally robust, then the predictions of  $\theta$  should be more accurate than any sufficiently close competing model in the same family after the agent settles down with a Berk-Nash equilibrium. A natural choice is to compare the KL divergence of the predicted outcome distributions.

**Definition 11.** Model  $\theta$  is *locally KL-minimizing* at strategy  $\sigma$  within the  $\bar{\theta}$ -family if there exists  $\epsilon > 0$  such that  $\sum_{\mathcal{A}} \sigma(a) \mathbb{E} \left( \ln \frac{q(\cdot|a, \omega')}{q(\cdot|a, \omega)} \right) \leq 0$  for all  $\omega \in \Omega^\theta(\sigma)$ ,  $\omega' \in \Omega^{\bar{\theta}} \cap B_\epsilon(\Omega^\theta(\sigma))$ .<sup>26</sup>

In words, this condition says that any KL-minimizer in the parameter set of model  $\theta$  is also a local KL-minimizer within the meta-parameter space  $\Omega^{\bar{\theta}}$ . Theorem 3 shows that presuming the action of a  $\theta$ -modeler converges, constrained local robustness indeed requires the existence of a p-absorbing BN-E and local KL-minimization.

**Theorem 3.** *Suppose that the action of a  $\theta$ -modeler almost surely converges under all full-support priors. If model  $\theta \in \Theta^{\bar{\theta}}$  is  $\bar{\theta}$ -constrained locally robust, then it must admit a pure p-absorbing BN-E  $\sigma$  at which  $\theta$  is locally KL-minimizing within the  $\bar{\theta}$ -family.*

There is one caveat: Theorem 3 is established with the presumption that the action sequence of a  $\theta$ -modeler converges over time, but this may not be the case in general. When the agent holds a misspecified model that persists against a correctly specified model, her action must converge to the support of a self-confirming equilibrium (Lemma 1). But this convergence property is lost once we shift our focus to misspecified models. When the behavior of a  $\theta$ -modeler does not converge to (the support of) any Berk-Nash equilibrium, model  $\theta$  may persist even without being locally KL-minimizing at any BN-E. Despite this challenge, I show that Theorem 3 still holds without the convergence assumption as long as  $\mathcal{A}$  is binary (see Theorem 6).

That being said, the majority of the misspecified models in the literature features convergence of behavior. In most cases, specific assumptions over the types of misspecification and the outcome distributions are imposed to ensure convergence of actions or action frequencies (Nyarko (1991); Heidhues et al. (2018); He (2020); Ba and Gindin (2021)). In the Appendix, I extend Theorem 3 to accommodate situations where the agent’s action sequence does not converge but her action frequency does.<sup>27</sup> In those environments, Theorem 3 provides a simple criterion to determine if a given model is constrained locally robust.

<sup>26</sup>Note that this is equivalent to the requirement that the KL divergence associated with  $\omega$  is lower than that of  $\omega'$ , i.e.  $D_{KL}(q^*(\cdot|a) \| q(\cdot|a, \omega)) \leq D_{KL}(q^*(\cdot|a) \| q(\cdot|a, \omega'))$ .

<sup>27</sup>Formally, given a finite action space  $\mathcal{A}$  and an action sequence  $(a_1, a_2, \dots)$ , the action frequency sequence is given by  $(\sigma_t)_t$ , where  $\sigma_t(a) = \frac{1}{t} \sum_{\tau=1}^t 1_{\{a_\tau=a\}}$ . Esponda et al. (2019) establish global almost-sure convergence of a dogmatic modeler’s action frequency to a BN-E if it is “globally attracting”, where global attractiveness is defined based on a differential equation that describes the evolution of the action frequency.



**Sufficient conditions.** It remains to be examined whether the condition in Theorem 3 is sufficient for constrained local robustness. It turns out that higher accuracy in terms of lower KL divergence is little weak for this purpose. The reason is more technical than conceptual: as pointed out by Frick et al. (2021a), when a distribution  $q$  yields lower KL divergence than  $q'$ , their log-likelihood ratio  $\ln(q'/q)$  constitutes a supermartingale but this supermartingale can be unbounded below, preventing us from invoking the relevant maximal inequalities. As a result, the predictions of model  $\theta$  can be shown to be more accurate than those of neighbor models in the limit but not consistently so starting from any given period, but the latter is critical in ensuring the agent does not switch to the competing model before the Berk-Nash equilibrium is reached. Frick et al. (2021a) develops a slightly stronger order of prediction accuracy that partially restores the supermartingale argument. This paper builds on their accuracy order and define a local dominance property to compare across models.

**Definition 12.** Model  $\theta$  is *locally dominant* at strategy  $\sigma$  within the  $\bar{\theta}$ -family if there exists  $\epsilon, d > 0$  such that  $\mathbb{E} \left( \frac{q(\cdot|a, \omega')}{q(\cdot|a, \omega)} \right)^d \leq 1$  for all  $\omega \in \Omega^\theta(\sigma)$ ,  $\omega' \in \Omega^{\bar{\theta}} \cap B_\epsilon(\Omega^\theta(\sigma))$ , and  $a \in \text{supp}(\sigma)$ .

In words, this condition requires the existence of some positive  $d$  such that for the  $d$ -th power of the likelihood ratio between any neighbor parameter  $\omega'$  in the meta-parameter space and any KL-minimizer  $\omega$  has an expectation weakly lower than 1, whenever the agent plays the BN-E actions. Local dominance comes for free when  $\sigma$  is a self-confirming equilibrium, because the expected likelihood ratio between any  $\omega'$  and any consistent  $\omega$  is always 1.

Local dominance strengthened local KL-minimization in two aspects. First, local KL-minimization only compares nearby parameters at the mixed action  $\sigma$  while local dominance makes a comparison at each action in the support of  $\sigma$ . Second, fixing an action  $a$ , as Frick et al. (2021a) point out, if  $\mathbb{E} \left( \frac{q(\cdot|a, \omega')}{q(\cdot|a, \omega)} \right)^d \leq 1$  for any  $d > 0$ , then we immediately have  $\mathbb{E} \left( \ln \frac{q(\cdot|a, \omega')}{q(\cdot|a, \omega)} \right) < 0$ .<sup>28</sup>

Theorem 4 confirms our conjecture that constrained local robustness is implied by the existence of a p-absorbing Berk-Nash equilibrium and local dominance. Similar to local robustness, the notion has no requirement for the prior under the no-trap conditions, provided that we replace the SCE in the no-trap conditions with a BN-E. I state the theorem using a pure equilibrium because the statement is more involved for a mixed one.<sup>29</sup>

<sup>28</sup>The converse is not true: even if the inequality based on KL divergence holds in a small neighborhood of  $\omega$ , this does not imply there exists  $d > 0$  such that the inequality based on likelihood ratio holds uniformly for all  $\omega'$  in the neighborhood.

<sup>29</sup>Additional conditions are needed if  $\sigma$  is not pure. Suppose  $\sigma$  is a p-absorbing mixed BN-E. Unless  $\sigma$  is self-confirming, when the agent only plays actions in the support of  $\sigma$ , the parameters that empirically best fit the observed data can change with the empirical action frequency and are not necessarily be given by  $\Omega^\theta(\sigma)$ . Hence, the likelihood ratio between a parameter in  $\Omega^{\bar{\theta}}$  and  $\theta$  cannot be bounded using the likelihood ratio between that parameter and a KL-minimizer in  $\Omega^\theta(\sigma)$ . In a more generalized version of

**Theorem 4.** *Suppose model  $\theta \in \Theta^{\bar{\theta}}$  admits a pure p-absorbing BN-E  $\sigma$  at which  $\theta$  is locally dominant within the  $\bar{\theta}$ -family. The following are true:*

- (i) *Model  $\theta$  is  $\bar{\theta}$ -constrained locally robust.*
- (ii) *If  $\theta$  has no traps, then it is  $\bar{\theta}$ -constrained locally robust at all full-support priors.*

Analogous to Corollary 1, we can replace p-absorbingness with quasi-strictness. Since we focus on a pure equilibrium, quasi-strictness further reduces to strictness.

**Corollary 3.** *Model  $\theta \in \Theta^{\bar{\theta}}$  is  $\bar{\theta}$ -constrained locally robust if  $\theta$  admits a strict BN-E at which  $\theta$  is locally dominant within the  $\bar{\theta}$ -family.*

## 5 Applications

I present two applications to demonstrate how results in this paper uncover new insights about the persistence of misspecified models. The first application illustrates our earlier finding that simple misspecified models may have better robustness properties than some correctly specified models. The second application revisits the comparison between overconfidence and underconfidence in more general environments.

### 5.1 Media Bias, Extremism, and Polarization

In this application, I consider a stylized model of media consumption and demonstrate how misconceptions about media bias (Groseclose and Milyo, 2005) can lead to stable polarization in political views despite no individual partisan bias. The misspecified model with these misconceptions and an extremism bias is globally robust regardless of the initial conditions. Even more surprisingly, people may abandon a correctly specified model, switch to such a misspecified model and then get stuck forever.

The agent has access to three media outlets and in each period she chooses one to consume,  $\mathcal{A} = \{a^L, a^M, a^R\}$ . The media outlets are indexed by their political leanings, left-wing, neutral, or right-wing. Each media outlet delivers two types of news,  $\mathcal{Y} = \{l, r\}$ , where  $l$  represents good stories for the leftists and  $r$  represents good stories for the rightists. The unknown state of the world  $\omega \in \Omega = \{\omega^L, \omega^M, \omega^R\}$  governs the fraction of  $l$  and  $r$  stories happened in the real world and it remains fixed throughout the life of the agent. In particular, 60% of the stories are  $l$  stories ( $r$  stories) in state  $\omega^L$  ( $\omega^R$ ), while an equal share of  $l$  and  $r$

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Theorem 4,  $\bar{\theta}$ -constrained local robustness is implied by the existence of a p-absorbing mixed BN-E  $\sigma$  such that  $\Omega^\theta(\sigma') = \Omega^\theta(\sigma)$  for each  $\sigma' \in \Delta \text{supp}(\sigma)$  and  $\theta$  is locally dominant at  $\sigma$  within the  $\bar{\theta}$ -family.

$q^\theta(l a, \omega)$	$\omega^L$	$\omega^M$	$\omega^R$	$q^{\hat{\theta}}(l a, \omega)$	$\omega^L$	$\omega^R$
$a^L$	0.7	0.6	0.5	$a^L$	0.6	0.5
$a^M$	0.6	0.5	0.4	$a^M$	0.5	0.5
$a^R$	0.5	0.4	0.3	$a^R$	0.5	0.4

Table 4: The left panel summarizes the true fraction of  $l$  stories reported by each media outlet in each state of the world. It is also a description of the correctly specified model  $\theta$ . The right panel describes the predictions of a misspecified model  $\hat{\theta}$ .

stories happen in state  $\omega^M$ . The three media outlets differ in their ways of news reporting: in each state of the world, media  $a^M$  truthfully reports the stories without bias, media  $a^L$  selectively reports  $l$  more than media  $a^M$ , and media  $a^R$  selectively reports  $r$  more than media  $a^M$ . The left panel of Table 5.1 summarizes the true fraction of  $l$  stories reported by the media in different states. We restrict attention on the world in state  $M$ , where the true fractions of  $l$  stories reported by the three media are given by (0.6, 0.5, 0.4).

In this exercise, we focus attention on the comparison between two different models  $\theta$  and  $\hat{\theta}$  that I describe in Table 5.1. Model  $\theta$  is correctly specified: a  $\theta$ -modeler realizes that  $\omega^M$  is a possible state of the world and are fully aware of the bias of both the left-wing and the right-wing media outlets. By contrast, model  $\hat{\theta}$  is misspecified in two aspects. First,  $\hat{\theta}$  features *extremism* because it only recognizes the possibility of the extreme states  $\omega^L$  and  $\omega^R$ . Second,  $\hat{\theta}$  features *naivety* about media bias: a  $\hat{\theta}$ -modeler underestimates the selective reporting bias of the left-wing  $a^L$  and right-wing media  $a^R$ , and also underestimates the informativeness of the neutral media. As a result, when a  $\hat{\theta}$ -modeler subscribes to the left-wing media and finds that 60% of the stories are good stories for leftists, she does not interpret it as evidence for the middle state  $\omega^M$  (which does not exist in her extreme worldview), but treats it as evidence for the left state  $\omega^L$ ; a similar logic applies to the right-wing media. She also mistakenly thinks that the reporting of the neutral media is totally uninformative about the state.

To highlight the core mechanism, I abstract away from specifying the payoff structure and outline the minimal assumptions that allow us to apply the characterization theorems in Section 3. It is straightforward to verify using Table 5.1 that the SCE supporting beliefs mentioned in Assumption 3 are indeed consistent.

**Assumption 3.** *When the true state is  $\omega^M$ , the following are true:*

- (i) *Model  $\theta$  admits a unique SCE  $a^M$  and it is strict, supported by belief  $\delta_{\omega^M}$ .*
- (ii) *Model  $\hat{\theta}$  admits only two strict SCEs,  $a^L$  and  $a^R$ , supported by  $\delta_{\omega^L}$  and  $\delta_{\omega^R}$ , respectively.*

Assumption 3 is natural and intuitive. With the correctly specified model  $\theta$ , the agent infers the true state and subscribes to the neutral media. With the misspecified model  $\hat{\theta}$ , however, the agent develops partisan bias and only subscribes to the media biased towards her political belief. The choices of the agent can be justified as the result of maximizing the sum of emotional and informational value from news consumption.<sup>30</sup>

Model  $\hat{\theta}$  has an advantage over model  $\theta$  due to its extremeness. Since both models  $\theta$  and  $\hat{\theta}$  admit at least one SCE, Theorem 1 tells us that both models are globally robust at some prior. Interestingly, Theorem 2 implies a counter-intuitive result (see Proposition 1 below): model  $\theta$  is globally robust only when the associated prior assigns high enough probability to the true state  $\omega^M$ , while model  $\hat{\theta}$  is globally robust at *all* priors. In other words, model  $\hat{\theta}$  is globally robust in a *robust* way.

**Proposition 1.** *Fix any  $\alpha > 1$ . Model  $\theta$  is globally robust at prior  $\pi_0^\theta$  if and only if  $\pi_0^\theta(\omega^M) \geq 1/\alpha$ , while model  $\hat{\theta}$  is globally robust at all priors.*

Despite being misspecified, model  $\hat{\theta}$  has a stronger global robustness property, because its narrative is simple, coherent, and balanced. To see this, notice that all parameter values in model  $\hat{\theta}$  are consistent, i.e.  $C^{\hat{\theta}} = \{\omega^L, \omega^R\} = \Omega^{\hat{\theta}}$ . This makes it possible for model  $\hat{\theta}$  to persist against any competing model. For example, model  $\hat{\theta}$  can outperform a left-biased competing model in explaining the data when the agent happens to read a series of  $r$  stories, and similarly it can outperform a right-biased competing model when the agent happens to read a series of  $l$  stories. If the competing model is unbiased and correctly specified such as model  $\theta$ , model  $\hat{\theta}$  still persists because of its simplicity.

Proposition 1 characterizes the robustness properties of  $\theta$  and  $\hat{\theta}$  separately with the implicit assumption that they are the initial model choice of a switcher. What if a switcher originally adopts  $\theta$  and entertains  $\hat{\theta}$  as the competing model? Whether she will abandon  $\theta$  in favor of  $\hat{\theta}$  is *a priori* unclear. While  $\theta$  may not be globally robust at a given prior, this only tells us that  $\theta$  does not persist against some competing model, but this competing model may not be  $\hat{\theta}$ . Surprisingly, as I show in Proposition 2,  $\hat{\theta}$  indeed replaces  $\theta$  with positive probability if the switching threshold is low.

**Proposition 2.** *Fix any full-support priors  $\pi_0^\theta, \pi_0^{\hat{\theta}}$  and any  $\alpha < 1/\pi_0^\theta(\omega^M)$ . In the switcher's problem  $(\theta, \hat{\theta}, \pi_0^\theta, \pi_0^{\hat{\theta}})$ , the model choice  $m_t$  eventually equals  $\hat{\theta}$  with positive probability.*

In summary, this application generates three novel insights about news consumption and political beliefs. First, extremism and naivety about media bias go hand in hand and their persistence is robust against arbitrary competing narratives. Second, individuals may

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<sup>30</sup>A micro-foundation is provided in Appendix C.

abandon their correct models and switch to incorrect alternatives because of their extremeness/simplicity. Third, even though the extreme and naive model has no built-in political bias, individuals who hold such a model gradually develop a strong partisan bias over time. The direction of the partisan bias is random and path-dependent, leading to long-term political polarization.

## 5.2 Overconfidence and Underconfidence

In this application, I compare the robustness properties of overconfidence and underconfidence in more general environments. I restrict attention on the prior-free local robustness notions since the interesting difference only concerns the induced equilibria. I show that under natural assumptions, any level of overconfidence is locally robust while underconfidence is locally robust only on a union of unconnected intervals.

This result breaks the symmetry between overconfidence and underconfidence and provides a novel mechanism for why we might expect one bias to be more persistent than the other. A plethora of evidence in psychology and economics suggests that overconfidence is more prevalent than underconfidence, and many hold the view that this is because agents derive ego utility from holding overconfident beliefs about their own positive traits (Brunnermeier and Parker, 2005; Köszegi, 2006; Oster, Shoulson, and Dorsey, 2013). By contrast, I provide a reason rooted in the learning environment itself: overconfidence has better robustness properties than underconfidence when the agent can switch models.

As in our motivating example, an agent chooses effort  $a_t$  from a finite set  $\mathcal{A}$  in each period. The agent has payoff  $u(a_t, y_t) = y_t$ , where  $y_t$  is the output of his work, including possibly any cost of effort. The output takes the form of  $y_t = g(a_t, b^*, \omega^*) + \eta_t$ , where function  $g$  is twice continuously differentiable and strictly increasing in  $b$  and  $\omega$ ,  $b^* \in [\underline{b}, \bar{b}]$  represents the agent's ability, and  $\omega^* \in [\underline{\omega}, \bar{\omega}]$  captures a fundamental of the outside environment, such as the market demand or the quality of the agent's organization, and  $\eta_t$  follows a known zero-mean normal distribution. The output function is strictly concave in effort  $a_t$ . In addition, following Heidhues et al. (2018), I assume that the optimal effort decreases in the fundamental and weakly decreases in one's ability, as captured by Assumption 4.<sup>31</sup>

**Assumption 4.** *Function  $g$  satisfies  $g_{ab} := \frac{\partial^2 g}{\partial a \partial b} \leq 0$  and  $g_{a\omega} := \frac{\partial^2 g}{\partial a \partial \omega} > 0$ .*

I consider misspecified models that assign probability 1 to some  $\hat{b} \in [\underline{b}, \bar{b}]$  which deviates from its correct value. The agent is dogmatically overconfident about his ability when  $\hat{b} > b^*$

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<sup>31</sup>The assumption that effort and the fundamental are complements are natural but not critical. If we alter the orientation of  $a_t$ , then effort and the fundamental become substitutes, but all results remain unchanged. The important assumption that leads to positive belief reinforcement for overconfidence and negative belief reinforcement for underconfidence is that  $g_{a\omega}$  has a different sign or is much larger than  $g_{ab}$ .

and dogmatically underconfident when  $\hat{b} < b^*$ . To avoid trivial cases of non-robustness, I focus on models whose parameter sets are *complete*: if the model assigns probability 1 to  $\hat{b}$ , then for all  $a \in \mathcal{A}$ , the set  $\Omega^\theta$  contains the value  $\hat{\omega}$  that satisfies  $g(a, \hat{b}, \hat{\omega}) = g(a, b^*, \omega^*)$ .

Under Assumption 4, beliefs about the fundamental are *positively reinforcing* when the agent is overconfident and *negatively reinforcing* when underconfident, as summarized below.

**Property 1** (Belief reinforcement). *When the agent is overconfident (underconfident), higher beliefs lead to higher optimal actions, i.e.  $\max A^\theta(\delta_{\omega'}) \leq \min A^\theta(\delta_{\omega''})$  for all  $\omega'' > \omega'$ , and higher actions leads to higher (lower) beliefs, i.e.  $\max \Omega^\theta(\delta_{a'}) \leq \min \Omega^\theta(\delta_{a''})$  ( $\min \Omega^\theta(\delta_{a'}) \geq \max \Omega^\theta(\delta_{a''})$ ) for all  $a'' > a'$ .*

The first part that higher beliefs induce higher actions follows from the assumption that one's effort and the fundamental are complements. The intuition for the second part is similar to the motivating example: as a result of overconfidence (underconfidence), he underestimates (overestimates) the fundamental; when a higher action is played, the return to the fundamental  $\omega$  is higher because  $g_{a\omega} > 0$ , and thus the positive (negative) gap between the true state  $\omega^*$  and the inferred fundamental  $\hat{\omega}$  should be smaller such that expectations meet the reality, implying that the inferred state  $\hat{\omega}$  is larger (smaller). Proposition 3 characterizes the robustness properties for different self-perceptions.

**Proposition 3.** *Suppose model  $\theta$  has a dogmatic self-perception  $\hat{b}$  and a complete parameter space, then the following are true:*

- (i) *Model  $\theta$  with any level of overconfidence  $\hat{b} > b^*$  is locally robust.*
- (ii) *There exists a strictly decreasing sequence  $\beta_N < \dots < \beta_1 < \beta_0 = b^*$  such that, model  $\theta$  with underconfidence is locally robust if  $\hat{b} \in (\beta_{2k+1}, \beta_{2k})$  for any  $k \in \mathbb{N}$  and not locally robust if  $\hat{b} \in (\beta_{2k}, \beta_{2k-1})$  for some  $k \in \mathbb{N}_+$ .*

Proposition 3 shows that overconfidence is locally robust, but underconfidence is only locally robust on unconnected intervals. The rest of this section illustrates the mechanism behind this result. First note that in this environment, if any pure Berk-Nash equilibrium induced by model  $\theta$  must be self-confirming because the agent can, by the completeness of the parameter set, perfectly justify his observations by forming an incorrect belief over the fundamental. By contrast, a mixed Berk-Nash equilibrium can never be self-confirming in this environment—the agent necessarily finds his self-perception  $\hat{b}$  inconsistent with the observations because no single value of the fundamental can reconcile the outcome distributions at more than two effort levels when  $\hat{b} \neq b^*$ . It can be shown that any competing model with a self-perception that is slightly closer to the truth would fit better uniformly at any

effort levels. Therefore, Proposition 3 follows from Theorem 1, provided that we can show overconfidence ensures the existence of a pure and p-absorbing BN-E while underconfidence sometimes gives rise to mixed BN-Es only.

To illustrate, suppose the agent chooses from three effort levels  $a' < a^* < a''$  where  $a^*$  is the unique optimal effort level when the agent knows the true DGP. Now consider an overconfident agent with  $\hat{b} > b^*$  and suppose there exists a mixed BN-E in which the agent finds both  $a'$  and  $a^*$  optimal against a supporting belief  $\delta_{\hat{\omega}}$ . Then for any assessment about the fundamental that is lower than  $\hat{\omega}$ , he strictly prefers the lower effort  $a'$ , which, due to positive reinforcement, implies that he indeed finds a lower assessment of the fundamental more accurate. Therefore, effort  $a'$  must also constitute a SCE and, since it is strict, Corollary 1 implies the model is locally robust.

Next let us turn to an underconfident agent with  $\hat{b} < b^*$ . Suppose there exists a mixed BN-E in which the agent finds both  $a^*$  and  $a''$  optimal against belief  $\delta_{\hat{\omega}}$ . Then for any higher assessment of  $\omega$ , he strictly prefers the higher effort  $a''$ , which, due to negative reinforcement, induces his belief over  $\omega$  to drift downwards; by contrast, for any lower assessment of  $\omega$ , he strictly prefers the lower effort  $a^*$ , which induces his belief to drift upwards. Therefore, the mixed BN-E is the only BN-E and thus the model is not locally robust. That being said, as  $\hat{b}$  further decreases, the agent might find the high effort  $a''$  strictly optimal, upon which the unique BN-E becomes pure and thus self-confirming. This then gives rise to unconnected intervals of non-robustness and robustness as described in Proposition 3.

## 6 Extensions and Discussion

### 6.1 Multiple Competing Models

This extension explores the consequence of the agent entertaining multiple competing models. The framework described in Section 2 could be easily extended to accommodate more than one competing models. Let  $\Theta' \subseteq \Theta$  denote the finite subset of competing models that the agent entertains in the beginning and  $\Theta^\dagger := \Theta' \cup \{\theta\}$  denote the set of all models entertained. In the beginning of each period  $t$ , she compares her current model against all alternatives and switches to the one with the highest likelihood ratio if it exceeds the switching threshold  $\alpha$ . Specifically, the agent calculates the likelihood ratios between each model in  $\Theta^\dagger$  and the model she used in last period,  $\lambda_t := (\lambda_t^{\theta'})_{\theta' \in \Theta^\dagger}$ , where

$$\lambda_t^{\theta'} = \ell_t(\theta') / \ell_t(m_{t-1}). \quad (9)$$



The agent then makes a switch if  $\max_{\theta' \in \Theta^\dagger} \lambda_t^{\theta'} > \alpha$  and switch to the model  $\theta'$  with the highest likelihood ratio.

The definitions of persistence and all notions of robustness can be modified by simply replacing  $\theta'$  by  $\Theta'$ . Suppose the agent entertains at most  $K \geq 1$  competing models, then global robustness would require  $\theta$  to persist against every  $\Theta' \subseteq \Theta$  of size no larger than  $K$  at all priors assigned to models in  $\Theta'$ . Local robustness notions can be similarly extended.<sup>32</sup>

Interestingly, the consideration of multiple competing models introduces overfitting. In particular, when the switching threshold  $\alpha$  is not adjusted as the number of competing models  $K$  becomes larger, even the true DGP may fail to be globally robust. Relatedly, [Schwartzstein and Sunderam \(2019\)](#) find in a static setting, a decision maker switches from the true DGP to a competing model when a persuader is allowed to propose one after the data is realized. By contrast, I show that the persuader can achieve the same goal even if he has to propose before the outcomes are drawn, provided that he can present multiple competing models. More importantly, not only must the switcher switch at least once to the competing models, due to sticky switching, she may eventually settle down with one of them despite that the true DGP fits the data perfectly on average. For concreteness, I now construct a decision problem and  $K$  competing models such that the true DGP  $\theta^*$  does not persist when  $K > \alpha + 1$ .

**Example 4** (Overfitting). The agent has two actions  $\mathcal{A} = \{a', a''\}$ . The true DGP is a uniform distribution over  $K$  outcomes,  $\mathcal{Y} = \{1, \dots, K\}$ , regardless of the action. The agent incurs a loss of  $-K$  when drawing the outcome  $y = 1$  and receives a payoff of 0 if any other outcome is realized. The agent pays an additional cost  $c > 0$  for playing  $a'$  and no cost if she plays  $a''$ . The agent's initial model  $\theta$  is the true DGP. Hence, the agent optimally plays  $a''$  in the first period to avoid the cost.

Suppose the agent evaluates  $K$  competing models that I describe below. Each model  $\theta^k \in \{\theta^1, \dots, \theta^K\}$  has a single parameter  $\omega^k$ . When  $a'$  is played, model  $\theta^k$  agrees with the true DGP, and its prediction corresponds to a uniform distribution. When  $a''$  is played, model  $\theta^k$  disagrees with the true DGP. For any  $k > 1$ ,  $\theta^k$  predicts

$$q^{\theta^k}(y|a'', \omega^k) = \begin{cases} 1 - \frac{1}{K} - (K-1)\eta & \text{if } y = n, \\ \frac{1}{K} + \eta & \text{if } y = 1, \\ \eta & \text{if } y \in \mathcal{Y} \setminus \{1, n\}, \end{cases}$$

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<sup>32</sup>Note that if  $\Theta'$  is not a singleton, then persistence against  $\Theta'$  is not equivalent to persistence against each model in  $\Theta'$ , and neither implies the other. See [Appendix C](#) for examples.



where  $\eta$  is a small positive constant. When  $k = 1$ ,  $q^{\theta^k}(\cdot|a'', \omega^k)$  is given by

$$q^{\theta^1}(y|a'', \omega^1) = \begin{cases} 1 - (K - 1)\eta & \text{if } y = 1, \\ \eta & \text{if } y \in \mathcal{Y} \setminus \{1\}. \end{cases}$$

Importantly, model  $\theta^k$  predicts that when  $a''$  is played, the outcome  $k$  is realized with probability near 1. Since there is one such model for every possible outcome, the agent must switch to one of these competing models after the first period. In particular, if the realized outcome is  $k$ , the agent immediately switches to model  $\theta^k$  when  $\eta$  is sufficiently small,

$$\frac{\ell_1(\theta^k)}{\ell_1(\theta)} \geq \frac{1 - \frac{1}{K} - (K - 1)\eta}{\frac{1}{K}} > \alpha,$$

where such  $\eta$  exists because  $K > \alpha + 1$ .

Next, since each competing model assigns a probability larger than  $1/K$  to the outcome 1, once the switch happens, the agent finds it optimal to play  $a'$  to avoid the loss associated with outcome 1 as long as  $c$  is sufficiently small. However, since all models have the same correct predictions under  $a'$ , the likelihood ratios remain unchanged thereafter. Hence, despite initially having the true model, the agent becomes permanently trapped with a wrong model and inefficient play.

The trap described in Example 4 is different from the trap we constructed in Example 1. To see that, note that  $\theta^*$  satisfies the no-trap conditions in Definition 7 since it is identifiable and has a quasi-strict SCE. The agent in Example 4 gets trapped because  $a'$  is strictly dominant under the competing models and all models have the exact same predictions once  $a'$  is being played, eliminating any possibility of future learning and switching. However, the driving force that leads the agent into the trap in the first place is indeed similar in the two examples. In Example 1, the agent holds a diffuse prior, rendering his model choice to be sensitive to early outcome realizations. In Example 4, overfitting also arises in the short term and prompts an early switch to other models. The more competing models the agent evaluates, the more likely such a switch occurs.

Therefore, a natural remedy is to make switching stickier so that agent is less responsive to early outcome realizations. Indeed, Theorem 5 shows that if  $\alpha > K$ , the scope of local and global robustness does not change at all and Theorem 1 fully generalizes to this environment. A larger bound may be needed for constrained locally robustness because local dominance is weaker than the self-confirming property, but when  $\alpha$  is large enough, Theorem 4 also generalizes.

**Theorem 5.** *Suppose the agent evaluates at most  $K$  competing models.*

1. *Suppose  $\alpha > K$ . Model  $\theta$  is locally and globally robust at some prior if and only if there exists a  $p$ -absorbing SCE under  $\theta$ .*
2. *Suppose  $\alpha > K^{1/d}$  for some  $d > 0$ . Model  $\theta \in \Theta^{\bar{\theta}}$  is  $\bar{\theta}$ -constrained locally robust if  $\theta$  admits a pure  $p$ -absorbing BN-E at which  $\theta$  is locally dominant within the  $\bar{\theta}$ -family and the local dominance condition in Definition 12 holds at  $d$ .*

This extension shows that the consideration of multiple competing models at the same time can make persistence more difficult due to overfitting. While one may expect such considerations to work towards the direction of reducing robust misspecification, they turn out to have as much bearing on correctly specified models as on misspecified models—in particular, even the true DGP may not persist. After adjusting the switching threshold for the increasing number of competing models, our main characterization remains valid, continuing to allow both correctly specified and misspecified models to be robust.

## 6.2 Patient Agent

Our baseline framework focuses on a myopic agent and rules out any experimentation motives. This assumption can be less substantial than one might think. In this subsection, I discuss two potential ways of relaxing this assumption.

First, we may assume that the agent is patient within each model but maintain that she is myopic across models. That is, when choosing an optimal action, the agent maximizes her expected discounted sum of payoffs assuming that she keeps her current model  $m_t$  in the future. An optimal policy  $f^\theta$  solves the following dynamic programming problem,

$$U^\theta(\pi_t^\theta) = \max_{a \in \mathcal{A}} \sum_{\omega \in \Omega^\theta} \pi^\theta(\omega) \int_{y \in \mathcal{Y}} [u(a, y) + \delta U^\theta(B^\theta(a, y, \pi_t^\theta))] q^\theta(y|a, \omega) v(dy).$$

How should we interpret the asymmetry between experimentation within models and no experimentation across models? This asymmetry again highlights the stickiness of switching models as opposed to the smoothness of Bayesian updating, and it is most reasonable when resources are constrained and switching happens rarely. For instance, consider an applied data scientist who uses one single model to guide data collection and make policy recommendations. While he is aware of potential misspecification, he may choose not to spare valuable resources in additional experiments to find the best model. However, he may indeed switch to a different model if the data at hand happens to suggest its superiority.

If we relax the myopicity assumption in this way, all theorems in Section 3 and 4 go through without any change. This claim is perhaps surprising, because a natural conjecture would be that experimentation motives make it harder to sustain a self-confirming equilibrium and thus the set of robust misspecified models can be smaller if the agent is patient. To illustrate why this claim is true, let me take local robustness as an example. Theorem 1 tells us that local robustness requires the existence of a  $p$ -absorbing self-confirming equilibrium, and Theorem 2 says that the concept is prior-free under the no-trap conditions. When the agent becomes more patient, the set of priors that induce a self-confirming equilibrium may need to be more concentrated around the equilibrium supporting belief or even become empty, but this concern is already built in the concept of  $p$ -absorbingness, so the characterization in Theorems 1 and 2 remain valid.

Alternatively, we can assume the agent is patient both within every model and across models by anticipating model switches. This may be plausible if the agent has rich resources or feel comfortable with switching models. If so, the agent may intentionally take actions that allow her to distinguish different models, even if her current model predicts a different optimal action. The characterization of robustness in this environment is beyond the scope of this paper, but I conjecture that the set of robust misspecified models will indeed shrink as the agent becomes increasingly patient.

### 6.3 Alternative Definitions of Persistence

This subsection discusses alternative definitions of model persistence. Our definition of persistence in Section 2 requires that if a switcher initially adopts this model, she eventually settles down with it with positive probability. This concept has a natural interpretation and can be used to predict whether a particular bias is likely to exist in a stable form. However, by relaxing or strengthening different parts of this definition, we can obtain a couple of variants that are also worth exploring. These alternative definitions are useful if one looks for models with stronger or weaker persistence properties. Besides, this investigation itself helps us better understand the original definition since it sheds light on the importance of the different parts of the concept.

**Almost sure eventual adoption.** The first natural extension is to strengthen the concept of persistence by requiring that the model is eventually adopted with probability 1. That is, any such model is guaranteed to win out in the competition. But almost-sure persistence turns out to wipe out all globally and locally robust models due to sticky switching. In fact, given any model  $\theta$  (including the true DGP  $\theta^*$ ), we can easily construct a nearby competing model  $\theta'$  such that the competing model is eventually adopted with positive probability.

The idea is that the agent can draw a sequence of outcome realizations that can be better explained by the competing model, and once a switch happens, the agent does not feel compelled to switch back since the predictions of the two models are very similar in the long term. Therefore, almost sure eventual adoption can be too restrictive to be any useful.

**No switch.** The current definition of persistence allows for back-and-forth switching before the eventual adoption of the model. A more conservative definition could have required the agent to adopt the same model throughout. It turns out that all theorems continue to hold even with this conservative definition. Indeed, model switching does not play any role in ensuring local and global robustness when there are no traps—to prove the main theorems, I show that there exists a sequence of outcome realizations that induce the agent to play a SCE while remaining under the same model. When there are traps in the model, however, a temporary switch to the competing model can be instrumental to the persistence of the initial model because the competing model may happen to keep the agent away from the traps. A full characterization of this case is left for future research.

## 7 Concluding Remarks

In this paper, I propose a new theoretical framework to study the persistence of misspecified models when decision makers are aware of potential model misspecification. Specifically, I introduce sticky switching to the standard model of individual active learning and study the limit of the model choices. I explore three different robustness notions and use them to derive novel insights about which models persist and when they persist. I show that all three robustness notions can be characterized along two dimensions, accuracy and prior tightness, as summarized in Table 1.

These results demonstrate the potential application value of this model-switching framework. First, I provide a learning foundation for certain misspecified models, some of which are already studied in misspecified learning literature. My characterization consists of simple criteria that can be verified from the primitives, which can be useful to future research efforts in studying particular types of misspecified models. Second, by modelling behavioral biases as model misspecification, this characterization can be used to predict the persistence of given behavioral biases in specific contexts, which can be useful for guiding empirical work on behavioral economics and relevant policy making.

Instead of assuming that the agent starts outright from an equilibrium and compares how well models fit the data there, this framework incorporates model switching into full-fledged learning dynamics. The characterization highlights the importance of this consideration.

Robustness not only requires the existence of a self-confirming equilibrium but also needs it to be p-absorbing, which connects the notion of model robustness with the stability of equilibria under a single model. Furthermore, global robustness requires high prior tightness around the set of p-absorbing self-confirming equilibria. This finding provides a theoretical justification for the empirical observation that simple narratives and entrenched worldviews tend to be more persistent.

Within this general framework of model switching, there are many other interesting questions to pursue. For example, persistence requires a positive probability of eventual adoption, but this concept is silent about the size of this probability. New insights may emerge from a comparison of this probability between robust misspecified and correctly specified models. Another potentially fruitful direction could be to restrict attention to a given small set of models and fully characterize the dynamics of model choices, i.e. how a decision maker oscillates between two or more competing models persistently.

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## A Auxiliary Lemmas

The underlying probability space  $(Y, \mathcal{F}, \mathbb{P})$  is constructed as follows. The sample space is  $\mathcal{Y} := (\mathcal{Y}^\infty)^\mathcal{A}$ , each element of which consists of infinite sequences of outcome realizations  $(y_{a,0}, y_{a,1}, \dots)$  for all actions  $a \in \mathcal{A}$ , where  $y_{a,t}$  denotes the outcome when the agent takes  $a$  in period  $t$ . Let us denote by  $\mathbb{P}$  the probability measure over  $\mathcal{Y}$  induced by independent draws from  $q^*$  and denote by  $\mathcal{F}$  the product sigma algebra. Let  $h := (a_t, y_t)_{t=0}^\infty$  denote an infinite history and  $H := (\mathcal{A} \times \mathcal{Y})^\infty$  be the set of infinite histories. Combined with the switching threshold  $\alpha$ , the switcher's problem  $(\theta, \theta', \pi_0^\theta, \pi_0^{\theta'})$ , and policies  $(f^\theta, f^{\theta'})$ ,  $\mathbb{P}$  induces a probability measure over  $H$  when the agent is a switcher, denoted by  $\mathbb{P}_S$ . Meanwhile, the measure  $\mathbb{P}$ , prior  $\pi_0^\theta$ , and policy  $f^\theta$  induce a different probability measure over  $H$  for a  $\theta$ -modeler who uses the same prior and policy, denoted by  $\mathbb{P}_D$ . All probabilistic statements about a switcher are made with respect to  $\mathbb{P}_S$  and all those about a  $\theta$ -modeler are with respect to  $\mathbb{P}_D$ , unless indicated otherwise.

**Lemma 2.** *Consider any switcher's problem  $(\theta, \theta', \pi_0^\theta, \pi_0^{\theta'})$  in which  $\theta, \theta' \in \Theta$  and  $\theta'$  is correctly specified. The ratio  $\ell_t(\theta)/\ell_t(\theta')$  a.s. converges to a non-negative random variable with finite expectation.*

*Proof.* Let  $\kappa_t = \ell_t(\theta)/\ell_t(\theta')$ , then  $\kappa_0 = 1$  and  $\kappa_t \geq 0, \forall t$ . I now construct the probability space in which  $\kappa_t$  is a martingale. Given prior  $\pi_0^{\theta'}$ , denote by  $\mathbb{P}_S^{\theta'}$  the probability measure over the set of histories  $H$  as implied by model  $\theta'$ . Formally, for any  $\hat{H} \subseteq H$ , we have  $\mathbb{P}_S^{\theta'}(\hat{H}) = \sum_{\omega \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega) \mathbb{P}_S^{\theta', \omega}(\hat{H})$ , where  $\mathbb{P}_S^{\theta', \omega}$  is the probability measure over  $H$  induced by the switcher if the true DGP is as described by  $\theta'$  and  $\omega$ . Take the conditional expectation of  $\kappa_t$  with respect to  $\mathbb{P}_S^{\theta'}$ , then we have

$$\begin{aligned}
& \mathbb{E}^{\mathbb{P}_S^{\theta'}}(\kappa_t | h_t) \\
&= \mathbb{E}^{\mathbb{P}_S^{\theta'}} \left[ \frac{\sum_{\omega \in \Omega^\theta} q^\theta(y_{t-1} | a_{t-1}, \omega) \pi_{t-1}^\theta(\omega)}{\sum_{\omega' \in \Omega^{\theta'}} q^{\theta'}(y_{t-1} | a_{t-1}, \omega') \pi_{t-1}^{\theta'}(\omega')} \kappa_{t-1} | h_t \right] \\
&= \kappa_{t-1} \sum_{\tilde{\omega} \in \Omega^{\theta'}} \pi_{t-1}^{\theta'}(\tilde{\omega}) \left[ \int_{\mathcal{Y}} \frac{\sum_{\omega \in \Omega^\theta} q^\theta(y_{t-1} | a_{t-1}, \omega) \pi_{t-1}^\theta(\omega)}{\sum_{\omega' \in \Omega^{\theta'}} q^{\theta'}(y_{t-1} | a_{t-1}, \omega') \pi_{t-1}^{\theta'}(\omega')} q^{\theta'}(y_{t-1} | a_{t-1}, \tilde{\omega}) \nu(dy_{t-1}) \right] \\
&= \kappa_{t-1} \int_{\mathcal{Y}} \left[ \frac{\sum_{\omega \in \Omega^\theta} q^\theta(y_{t-1} | a_{t-1}, \omega) \pi_{t-1}^\theta(\omega)}{\sum_{\omega' \in \Omega^{\theta'}} q^{\theta'}(y_{t-1} | a_{t-1}, \omega') \pi_{t-1}^{\theta'}(\omega')} \left( \sum_{\tilde{\omega} \in \Omega^{\theta'}} q^{\theta'}(y_{t-1} | a_{t-1}, \tilde{\omega}) \pi_{t-1}^{\theta'}(\tilde{\omega}) \right) \right] \nu(dy_{t-1}) \\
&= \kappa_{t-1} \int_{\mathcal{Y}} \left[ \sum_{\omega \in \Omega^\theta} q^\theta(y_{t-1} | a_{t-1}, \omega) \pi_{t-1}^\theta(\omega) \right] \nu(dy_{t-1}) \\
&= \kappa_{t-1} \sum_{\omega \in \Omega^\theta} \left[ \int_{\mathcal{Y}} q^\theta(y_{t-1} | a_{t-1}, \omega) \nu(dy_{t-1}) \right] \pi_{t-1}^\theta(\omega) = \kappa_{t-1}.
\end{aligned}$$

Hence,  $\kappa_t$  is a martingale w.r.t.  $\mathbb{P}_S^{\theta'}$ . Since  $\kappa_t \geq 0, \forall t$ , the Martingale Convergence Theorem implies that  $\kappa_t$  converges to  $\kappa$  almost surely w.r.t.  $\mathbb{P}_S^{\theta'}$ , and  $\mathbb{E}^{\mathbb{P}_S^{\theta'}} \kappa \leq \mathbb{E}^{\mathbb{P}_S^{\theta'}} \kappa_0 = 1$ . Since  $\theta'$  is correctly specified, there exists a parameter  $\omega^* \in \Omega^{\theta'}$  such that  $q^*(\cdot|a) \equiv q^{\theta'}(\cdot|a, \omega^*), \forall a \in \mathcal{A}$ . It then follows from  $\pi_0^{\theta'}(\omega^*) > 0$  that  $\kappa_t$  also converges to  $\kappa$  almost surely w.r.t.  $\mathbb{P}_S^{\theta', \omega^*}$ , which is the same measure as  $\mathbb{P}_S$ . Moreover,  $\mathbb{E}\kappa < \infty$  because otherwise it contradicts  $\mathbb{E}^{\mathbb{P}_S^{\theta'}} \kappa \leq 1$ .  $\square$

**Lemma 3.** *Suppose  $\theta \in \Theta$  persists against a correctly specified model  $\theta' \in \Theta$  at some full-support priors  $\pi_0^\theta, \pi_0^{\theta'}$ . Then on paths where  $m_t$  eventually equals  $\theta$ , we have  $\lambda_t \xrightarrow{\text{a.s.}} \lambda_\infty \leq \alpha$ ,  $\pi_t^{\theta'} \xrightarrow{\text{a.s.}} \pi_\infty^{\theta'}$ , and  $\pi_t^\theta \xrightarrow{\text{a.s.}} \pi_\infty^\theta$ .*

*Proof.* It immediately follows from Lemma 2 that  $\ell_t(\theta')/\ell_t(\theta) \xrightarrow{\text{a.s.}} \iota \leq \alpha$  on paths where  $m_t$  converges to  $\theta$ . I now show that  $\pi_t^\theta$  and  $\pi_t^{\theta'}$  also converge almost surely. Given any  $\omega \in \Omega^\theta$ , we can write

$$\begin{aligned} \frac{\pi_t^\theta(\omega)}{\pi_0^\theta(\omega)} &= \frac{\prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega)}{\sum_{\omega' \in \Omega^\theta} \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega') \pi_0^\theta(\omega')} \\ &= \frac{\ell_t(\theta')}{\ell_t(\theta)} \cdot \frac{\prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega)}{\sum_{\omega'' \in \Omega^{\theta'}} \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_\tau, \omega'') \pi_0^{\theta'}(\omega'')} \\ &:= \frac{\ell_t(\theta')}{\ell_t(\theta)} \cdot \frac{\ell_t(\theta, \omega)}{\ell_t(\theta')}, \end{aligned}$$

where the second term  $\ell_t(\theta, \omega)/\ell_t(\theta')$  can be seen as the likelihood ratio of a model that consists of a single parameter  $\omega$  and the competing model  $\theta'$ . By Lemma 2,  $\ell_t(\theta, \omega)/\ell_t(\theta')$  a.s. converges to a random variable with finite expectation. Consider the paths on which  $m_t$  converges to  $\theta$ . On these paths, both  $\ell_t(\theta')/\ell_t(\theta)$  and  $\ell_t(\theta, \omega)/\ell_t(\theta')$  converges a.s., which implies that  $\pi_t^\theta(\omega)$  a.s. converges to a random variable with finite expectation as well. Since this is true for all  $\omega \in \Omega^\theta$ ,  $\pi_t^\theta$  a.s. converges to some limit  $\pi_\infty^\theta$  on those paths. Analogously, for any  $\omega' \in \Omega^{\theta'}$ , we can write

$$\frac{\pi_t^{\theta'}(\omega')}{\pi_0^{\theta'}(\omega')} = \frac{\ell_t(\theta', \omega')}{\ell_t(\theta')},$$

which, again by Lemma 2, converges almost surely.  $\square$

**Lemma 4.** *Fix any  $\theta, \theta' \in \Theta$ ,  $\omega \in \Omega^\theta, \omega' \in \Omega^{\theta'}$  and any sequence of actions  $(a_1, a_2, \dots)$ . For each infinite history  $h \in (\mathcal{A} \times \mathcal{Y})^\infty$  that is generated according to  $(a_1, a_2, \dots)$  by the true DGP, let*

$$\xi_t(h) = \ln \frac{q^\theta(y_t|a_t, \omega)}{q^{\theta'}(y_t|a_t, \omega')} - \mathbb{E} \left( \ln \frac{q^\theta(y_t|a_t, \omega)}{q^{\theta'}(y_t|a_t, \omega')} | h_t \right).$$

Then for any fixed  $t_0 \geq 1$ ,

$$\lim_{t \rightarrow \infty} (t - t_0 + 1)^{-1} \sum_{\tau=t_0}^t \xi_\tau(h) = 0, \text{ a.s..}$$

*Proof.* Note that  $\xi_t(h)$  is a martingale difference process since  $E(\xi_t(h) | h_t) = 0$ . So for any  $t_0$ ,  $\xi_{t_0}^t(h) := \sum_{\tau=t_0}^t (t - \tau + 1)^{-1} \xi_\tau(h)$  is also a martingale difference process. To use the Martingale Convergence Theorem, I now show that  $\sup_t \mathbb{E}((\xi_{t_0}^t)^2) < \infty$ . Notice that

$$\begin{aligned} \mathbb{E}((\xi_{t_0}^t)^2) &= \mathbb{E} \left[ \left( \sum_{\tau=t_0}^t (t - \tau + 1)^{-1} \xi_\tau(h) \right)^2 \right] \\ &\leq \sum_{\tau=t_0}^t (t - \tau + 1)^{-2} \mathbb{E}[(\xi_\tau(h))^2] \\ &\leq \sum_{\tau=t_0}^t (t - \tau + 1)^{-2} \mathbb{E} \left[ \left( \ln \frac{q^\theta(y_t | a_t, \omega)}{q^{\theta'}(y_t | a_t, \omega')} \right)^2 \right] \\ &\leq \sum_{\tau=t_0}^t (t - \tau + 1)^{-2} \mathbb{E} \left[ \left( \ln \frac{q^*(y_t | a_t)}{q^\theta(y_t | a_t, \omega)} \right)^2 + \left( \ln \frac{q^*(y_t | a_t)}{q^{\theta'}(y_t | a_t, \omega')} \right)^2 \right] \\ &\leq 2 \sum_{\tau=t_0}^t (t - \tau + 1)^{-2} \max_a \mathbb{E}[(r_a(y))^2] < \infty, \end{aligned}$$

where the first inequality follows from the fact that, for any  $\tau' > \tau \geq t_0$ ,  $\mathbb{E}(\xi_\tau(h) \xi_{\tau'}(h)) = \mathbb{E}(\mathbb{E}(\xi_{\tau'}(h) | h_\tau) \xi_\tau(h)) = 0$  and the last inequality follows from Assumption 2. Now we can invoke the Martingale Convergence Theorem which implies that  $\xi_{t_0}^t$  converges to a random variable  $\xi_{t_0}^\infty$  almost surely with  $\mathbb{E}((\xi_{t_0}^\infty)^2) < \infty$ . Since  $\xi_{t_0}^\infty = \lim_{t \rightarrow \infty} \sum_{\tau=t_0}^t (t - \tau + 1)^{-1} \xi_\tau(h)$  is finite a.s., it follows from the Kronecker Lemma that

$$\lim_{t \rightarrow \infty} (t - t_0 + 1)^{-1} \sum_{\tau=t_0}^t \xi_\tau(h) = 0, \text{ a.s..}$$

□

Let us define action frequency  $\sigma_t : \mathcal{A}^{t+1} \rightarrow \Delta \mathcal{A}$  to measure how frequent each action has been played up to period  $t$ . In particular, given an action sequence  $(a_0, a_1, \dots)$ , let

$$\sigma_t(a) = \frac{\sum_{\tau=0}^t \mathbf{1}(a_\tau = a)}{t}.$$

**Lemma 5.** Fix any  $\theta \in \Theta$ . Suppose the action frequency of a  $\theta$ -modeler converges to  $\sigma$ , then her belief  $\pi_t^\theta$  satisfies  $\pi_t^\theta(\Omega^\theta(\sigma)) \xrightarrow{a.s.} 1$ . Similarly, if the action frequency of a switcher with  $\Theta^\dagger \ni \theta$  converges to  $\sigma$ , then her belief  $\pi_t^\theta$  also satisfies  $\pi_t^\theta(\Omega^\theta(\sigma)) \xrightarrow{a.s.} 1$ .

*Proof.* The proof is completely identical for either a  $\theta$ -modeler or a switcher. Since  $\Omega^\theta$  is finite, for any given  $\sigma$ , there exists  $\epsilon > 0$  such that

$$\sum_{\mathcal{A}} \sigma(a) [D_{KL}(q^*(\cdot|a) \parallel q^\theta(\cdot|a, \omega)) - D_{KL}(q^*(\cdot|a) \parallel q^\theta(\cdot|a, \omega'))] < -\epsilon \quad (10)$$

for all  $\omega \in \Omega^\theta(\sigma)$  and  $\omega' \in \Omega^\theta/\Omega^\theta(\sigma)$ . For any  $\omega \in \Omega^\theta(\sigma)$  and  $\omega' \in \Omega^\theta/\Omega^\theta(\sigma)$  at time  $t$ ,

$$\begin{aligned} \frac{\pi_t^\theta(\omega')}{\pi_t^\theta(\omega)} &= \frac{\prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega') \pi_0^\theta(\omega')}{\prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega) \pi_0^\theta(\omega)} \\ &= \exp \left( \sum_{\tau=0}^{t-1} \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} + \ln \frac{\pi_0^\theta(\omega')}{\pi_0^\theta(\omega)} \right). \end{aligned}$$

We are done if this ratio converges to 0. Notice that

$$\begin{aligned} &\frac{1}{t} \sum_{\tau=0}^{t-1} \mathbb{E} \left( \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} \middle| h_t \right) \\ &= - \sum_{\mathcal{A}} \sigma_t(a) [D_{KL}(q^*(\cdot|a) \parallel q^\theta(\cdot|a, \omega')) - D_{KL}(q^*(\cdot|a) \parallel q^\theta(\cdot|a, \omega))] , \end{aligned}$$

which converges to the left-hand side of Eq. (10) as  $\sigma_t$  converges to  $\sigma$ . Hence, there exists  $T_1$  such that

$$\frac{1}{t} \sum_{\tau=0}^{t-1} \mathbb{E} \left( \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} \middle| h_t \right) < -\frac{\epsilon}{2}, \forall t > T_1.$$

By Lemma 4, there exists  $T_2$  such that when  $t > T_2$ ,

$$\frac{1}{t} \sum_{\tau=0}^{t-1} \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} < \frac{1}{t} \sum_{\tau=0}^{t-1} \mathbb{E} \left( \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} \middle| h_t \right) + \frac{\epsilon}{3}$$

It follows that when  $t > \max\{T_1, T_2\}$ ,

$$\sum_{\tau=0}^{t-1} \ln \frac{q^\theta(y_\tau|a_\tau, \omega')}{q^\theta(y_\tau|a_\tau, \omega)} < t \cdot \left( -\frac{\epsilon}{6} \right).$$

Hence,  $\frac{\pi_t^\theta(\omega')}{\pi_t^\theta(\omega)}$  converges to 0 for all  $\omega \in \Omega^\theta(\sigma)$  and  $\omega' \in \Omega^\theta/\Omega^\theta(\sigma)$ .  $\square$

**Lemma 6.** *For any  $\theta \in \Theta$ , the optimal action correspondence  $A^\theta : \Delta\Omega^\theta \rightrightarrows \mathcal{A}$  is upper hemicontinuous in both the belief  $\pi$  and the agent's discount factor  $\delta$ .*

*Proof.* This is a standard result directly following from Blackwell (1965) and Maitra (1968).  $\square$

**Lemma 7.** *For any  $\theta \in \Theta$ , the set of all Berk-Nash equilibria under  $\theta$  is compact.*

*Proof.* Denote the set of all Berk-Nash equilibria under model  $\theta$  as  $BN^\theta \subseteq \Delta\mathcal{A}$ . Since  $\Delta\mathcal{A}$  is bounded, we only need to show that  $BN^\theta$  is closed. Suppose  $\sigma$  is the limit of some sequence  $(\sigma_n)_n$  of Berk-Nash equilibria, but  $\sigma$  is not a Berk-Nash equilibrium, i.e.  $\sigma \notin BN^\theta$ . Then for every belief  $\pi \in \Delta\Omega^\theta(\sigma)$ , we have that  $\sigma \notin \Delta A_m^\theta(\pi)$ . Since  $\Omega^\theta(\cdot)$  is upper hemicontinuous, it must be that  $\Omega^\theta(\sigma_n) \subseteq \Omega^\theta(\sigma)$  for large enough  $n$ . Hence, we have  $\sigma \notin \Delta A_m^\theta(\pi)$  for every belief  $\pi \in \Delta\Omega^\theta(\sigma_n)$  when  $n$  is large enough. However, we know that  $\text{supp}(\sigma) \subseteq \text{supp}(\sigma_n)$  for large enough  $n$ , which implies that  $\sigma_n \notin \Delta A_m^\theta(\pi)$  for large  $n$ . This is a contradiction.  $\square$

## B Proofs of Main Results

I prove all theorems under the assumption that the agent may be non-myopic within each model but is myopic across models (see Section 6.2). This includes the special case where the agent is myopic everywhere.

### B.1 Proof of Theorem 1: (ii) $\Leftrightarrow$ (iii)

I first prove Lemma 1, which implies the necessity of a p-absorbing SCE for global robustness. I then prove Lemma 8, which is then used to show sufficiency.

*Proof of Lemma 1.* By Lemma 3, on paths where  $\theta$  is eventually forever adopted, beliefs  $\pi_t^\theta$  and  $\pi_t^{\theta'}$  both converge almost surely. Consider any  $\hat{\omega}$  such that with positive probability,  $m_t$  eventually equals  $\theta$  and  $\hat{\omega} \in \text{supp}(\pi_\infty^\theta)$ . Let  $A^-(\hat{\omega}) \equiv \{a \in \mathcal{A} : q^\theta(\cdot|a, \hat{\omega}) \neq q^*(\cdot|a)\}$ . I now show that every action in  $A^-(\hat{\omega})$  is played at most finite times a.s. on the paths where  $m_t$  converges to  $\theta$  and  $\hat{\omega} \in \text{supp}(\pi_\infty^\theta)$ . Suppose instead that actions in  $A^-(\hat{\omega})$  are played infinitely often. Then there must exist some  $\gamma > 0$  such that  $\mathbb{E} \ln \frac{q^*(y|a_t)}{q^\theta(y|a_t, \hat{\omega})} > \gamma$  for infinitely many  $t$ . Since  $\theta'$  is correctly specified, there exists a parameter  $\omega^* \in \Omega^{\theta'}$  such that



$q^*(\cdot|a) \equiv q^{\theta'}(\cdot|a, \omega^*)$ ,  $\forall a \in \mathcal{A}$ . Hence,  $\mathbb{E} \ln \frac{q^{\theta'}(y|a_t, \omega^*)}{q^\theta(y|a_t, \hat{\omega})} > \gamma$  for infinitely many  $t$ . Notice that

$$\begin{aligned} \frac{\ell_t(\theta')}{\ell_t(\theta)} &= \frac{\sum_{\omega' \in \Omega^{\theta'}} \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_\tau, \omega') \pi_0^{\theta'}(\omega')}{\sum_{\omega \in \Omega^\theta} \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega) \pi_0^\theta(\omega)} \\ &> \pi_t^\theta(\hat{\omega}) \frac{\pi_0^{\theta'}(\omega^*)}{\pi_0^\theta(\hat{\omega})} \frac{\prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_\tau, \omega^*)}{\prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \hat{\omega})} \\ &= \pi_t^\theta(\hat{\omega}) \frac{\pi_0^{\theta'}(\omega^*)}{\pi_0^\theta(\hat{\omega})} \exp \left[ \sum_{\tau=0}^{t-1} 1_{\{a_\tau \in A^-(\hat{\omega})\}} \ln \frac{q^{\theta'}(y_\tau|a_\tau, \omega^*)}{q^\theta(y_\tau|a_\tau, \hat{\omega})} \right], \end{aligned}$$

which, by Lemma 4, a.s. increases to infinity as  $t \rightarrow \infty$ , contradicting the assumption that  $m_t$  converges to  $\theta$ . Therefore, on the paths where  $m_t$  eventually equals  $\theta$ , almost surely, there exists  $T$  such that  $a_t \in \mathcal{A} \setminus \cup_{\omega' \in \text{supp}(\pi_\infty^\theta)} A^-(\hat{\omega})$ ,  $\forall t > T$ .

Since  $q^\theta(\cdot|a, \omega') \equiv q^*(\cdot|a)$  for all  $\omega' \in \text{supp}(\pi_\infty^\theta)$  and all  $a \in \mathcal{A} \setminus \cup_{\omega' \in \text{supp}(\pi_\infty^\theta)} A^-(\omega')$ , the actions that are played in the limit have no experimentation value and are myopically optimal. Therefore, any strategy that takes support on the limit actions is a self-confirming equilibrium. Fixing a particular value of  $\pi_\infty^\theta$  that is a limit belief for a positive measure of histories where  $m_t$  eventually equals  $\theta$ , there exists a set of actions  $\hat{A} \subseteq A_m^\theta(\pi_\infty^\theta)$  such that on those histories, the agent only plays actions from this set in the limit. Since  $m_t$  eventually converges to  $\theta$ , it must be true that with positive probability, a  $\theta$ -modeler who inherits the switcher's prior and policy from the period when the last switch happens also only plays actions from  $\hat{A}$  in the limit with positive probability. Therefore, take any strategy  $\sigma$  with  $\text{supp}(\sigma) = \hat{A}$ , it is a p-absorbing self-confirming equilibrium under  $\theta$ .  $\square$

**Lemma 8.** *If  $\sigma$  is a p-absorbing SCE, then for any  $\gamma \in (0, 1)$  and  $\epsilon > 0$ , there exists a full-support prior  $\pi_0^\theta$  under which, with probability higher than  $\gamma$ , a  $\theta$ -modeler only plays actions in  $\text{supp}(\sigma)$  and her belief stays within  $B_\epsilon(\Delta\Omega^\theta(\sigma))$  for all periods.*<sup>33</sup>

*Proof of Lemma 8.* Suppose there exists a p-absorbing SCE  $\sigma$  under  $\theta$ . Consider the learning process of a  $\theta$ -modeler. By definition, there exists a full-support prior  $\pi_0^\theta \in \Delta\Omega^\theta$  such that with positive probability, she eventually only plays actions in  $\text{supp}(\sigma)$  and each element of  $\text{supp}(\sigma)$  is played infinitely often (this is without loss of generality). Denote those paths by  $\tilde{H}$ . Then by a similar argument as in the proof of Lemma 1,  $\pi_t^\theta$  a.s. converges to a limit  $\pi_\infty^\theta$  on  $\tilde{H}$ , with  $\text{supp}(\pi_\infty^\theta) \subseteq \Omega^\theta(\sigma) = \{\omega \in \Omega^\theta : q^*(\cdot|a) = q^\theta(\cdot|a, \omega), \forall a \in \text{supp}(\sigma)\}$ .

This implies the existence of an integer  $T > 0$  such that, with positive probability, we have (1)  $a_t \in \text{supp}(\sigma), \forall t \geq T$ , (2)  $\pi_t^\theta$  converges to a limit  $\pi_\infty^\theta$  with  $\text{supp}(\pi_\infty^\theta) \subseteq \Omega^\theta(\sigma)$ .

<sup>33</sup>For any set of finite probability distributions  $Z$  over sample space  $S$ , I use  $B_\epsilon(Z)$  to denote the set of probability distributions whose minimum distance from any element in  $Z$  is smaller than  $\epsilon$ , i.e.  $B_\epsilon(Z) = \{z \in \Delta S : \min_{z' \in Z} d_P(z, z') < \epsilon\}$ , where  $d_P$  represents the usual Prokhorov metric over  $\Delta S$ .

Pick any  $\epsilon > 0$ . Since the learning processes are Markov, we can find a new prior  $\tilde{\pi}_0^\theta \in B_\epsilon(\Delta\Omega^\theta(\sigma))$  under which, on a positive measure of histories, a  $\theta$ -modeler behaves such that (1')  $a_t \in \text{supp}(\sigma), \forall t \geq 0$ , and (2') the posterior  $\tilde{\pi}_t^\theta$  almost surely converges to  $\pi_\infty^\theta$  and never leaves  $B_\epsilon(\Delta\Omega^\theta(\sigma))$  for all  $t \geq 0$ .

Denote the event described by (1') and (2') by  $E$ . I now show for any constant  $\gamma \in (0, 1)$ , there exists a full-support prior  $\hat{\pi}_0^\theta$  under which  $\mathbb{P}_D(E) > \gamma$ . Suppose for contradiction that this is not true. Denote the probability of  $E$  under any full-support prior by  $\gamma(\pi^\theta)$  and let  $\bar{\gamma} := \sup_{\pi_0^\theta \in \text{int}(\Delta\Omega^\theta)} \gamma(\pi^\theta)$ , where  $\text{int}(\Delta\Omega^\theta)$  denotes all full-support beliefs over  $\Omega^\theta$ , then it follows that  $\bar{\gamma} < 1$ . By definition, for any  $\psi > 0$ , there exists some prior  $\pi_0^{\theta, \psi}$  such that  $\gamma(\pi_0^{\theta, \psi}) > \bar{\gamma} - \psi$ . But under this prior, with probability  $1 - \gamma(\pi_0^{\theta, \psi})$ , the dogmatic modeler eventually either arrives at some posterior  $\pi_t^{\theta, \psi}$  that either leads her to play an action outside  $\text{supp}(\sigma)$  or leaves the neighborhood  $B_\epsilon(\Delta\Omega^\theta(\sigma))$ . Hence, there exists an integer  $T > 0$  such that

$$\mathbb{P}_D \left( \gamma(\pi_T^{\theta, \psi}) = 0 \right) > \gamma(\pi_0^{\theta, \psi}) - \psi > \bar{\gamma} - 2\psi.$$

Now, consider the supremum probability that  $E$  is achieved if the agent starts with a prior that is equal to one of the possible posteriors  $\pi_T^{\theta, \psi}$ . Since

$$\gamma(\pi_0^{\theta, \psi}) = \mathbb{E}_{h_T \in H_T}^{\mathbb{P}_D} \gamma(\pi_T^{\theta, \psi}),$$

we have

$$\begin{aligned} \sup_{h_T \in H_T} \gamma(\pi_T^{\theta, \psi}) &> \frac{\gamma(\pi_0^{\theta, \psi})}{1 - \mathbb{P}_D \left( \gamma(\pi_T^{\theta, \psi}) = 0 \right)} \\ &> \frac{\bar{\gamma} - \psi}{1 - \bar{\gamma} + 2\psi}. \end{aligned}$$

But notice that when  $\psi$  is sufficiently small, the term  $\frac{\bar{\gamma} - \psi}{1 - \bar{\gamma} + 2\psi}$  is strictly larger than  $\bar{\gamma}$ , contradicting the assumption that  $\bar{\gamma}$  is the supremum of  $\gamma(\pi^\theta)$  over all full-support beliefs.  $\square$

*Proof of Theorem 1 (iii)  $\Rightarrow$  (ii).* Pick any competing model  $\theta' \in \Theta$  and any full-support prior  $\pi_0^{\theta'} \in \Delta\Omega^{\theta'}$ . Let  $S_t := \ell_t(\theta')/\ell_t(\theta^*)$ , then  $S_t$  is a martingale with respect to both  $\mathbb{P}_D$  and  $\mathbb{P}_S$  by Lemma 2. By the Ville's maximal inequality for supermartingales, the probability that  $S_n$  is bounded above by a positive constant larger than 1 is bounded away from 0. In particular, for any  $\eta \in (1, \alpha)$ ,

$$\mathbb{P}_D(S_t \leq \eta, \forall t \geq 0) \geq 1 - \frac{\mathbb{E}^{\mathbb{P}_D} S_0}{\eta} = 1 - \frac{1}{\eta}.$$

Note that this inequality holds for any model  $\theta'$ .

Denote by  $\sigma$  a p-absorbing SCE under  $\theta$ . By Lemma 8, we know that for any  $\eta \in (1, \alpha)$  and  $\epsilon > 0$ , there exist a prior  $\pi_0^\theta \in B_\epsilon(\Delta\Omega^\theta(\sigma))$  such that  $\mathbb{P}_D(E) > 1/\eta$  (the event  $E$  is defined in the proof of Lemma 8). Therefore,

$$\begin{aligned} & \mathbb{P}_D(E \text{ occurs and } S_t \leq \eta, \forall t \geq 0) \\ & \geq \mathbb{P}_D(E) + \mathbb{P}_D(S_t \leq \eta, \forall t \geq 0) - 1 > 0. \end{aligned}$$

Denote the histories where  $E$  occurs and  $S_t \leq \eta, \forall t \geq 0$  by  $\hat{H}$ . When  $\epsilon$  is small enough, we have that on  $\hat{H}$ ,

$$\begin{aligned} \lambda_t &= \frac{\ell_t(\theta')}{\ell_t(\theta)} = \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega') \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau | a_\tau, \omega')}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega)} \\ &< \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega') \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau | a_\tau, \omega')}{\pi_0^\theta(\Omega^\theta(\sigma)) \prod_{\tau=0}^{t-1} q^*(y_\tau | a_\tau)} \\ &\leq \frac{\eta}{1 - \epsilon} < \alpha \end{aligned}$$

where the first inequality follows from the fact that  $\pi_0^\theta$  is full-support and the second inequality follows from the definition of  $\hat{H}$ . Thus, on  $\hat{H}$ , the switcher never makes any switch to the competing model  $\theta'$ , i.e.  $m_t = \theta, \forall t \geq 0$ , and her action choices would be identical to the  $\theta$ -modeler. Therefore, if we endow the switcher with the same prior  $\pi_0^\theta$ , event  $\hat{H}$  also occurs with positive probability under  $\mathbb{P}_S$ .  $\square$

## B.2 Proof of Theorem 1: (i) $\Rightarrow$ (iii)

I show that if  $\theta$  is locally robust at some prior, then it must admit a p-absorbing SCE. Construct a competing model  $\theta'$  as follows. Let  $\theta'$  have the identical parameter space as  $\theta$ , i.e.  $\Omega^{\theta'} = \Omega^\theta$ , and let its predictions be given by  $q^{\theta'}(\cdot | a, \omega) = \mu q^\theta(\cdot | a, \omega) + (1 - \mu)q^*(\cdot | a)$ , for all  $a \in \mathcal{A}$  and all  $\omega \in \Omega^\theta$ , where  $\mu \in (0, 1)$ . For any  $\epsilon > 0$ , when  $\mu$  is close enough to 1, we have  $\theta' \in N_\epsilon(\theta)$ . By the definition of local robustness, there exists  $\epsilon > 0$  such that  $\theta$  persists against  $\theta'$  under some full-support priors  $\pi_0^\theta$  and  $\pi_0^{\theta'} = \pi_0^\theta$ . Consider any  $\hat{\omega} \in \Omega^\theta$  such that

$$\mathbb{P}_S \left( m_t \text{ eventually equals } \theta \text{ and } \liminf_{t \rightarrow \infty} \pi_t^\theta(\hat{\omega}) > 0 \right) > 0.$$

Let  $A^-(\hat{\omega}) := \{a \in \mathcal{A} : q^\theta(\cdot | a, \hat{\omega}) \neq q^*(\cdot | a)\}$ . Then every action in  $A^-(\hat{\omega})$  is played at most finite times a.s. on the path where  $m_t$  eventually equals  $\theta$  and  $\liminf_{t \rightarrow \infty} \pi_t^\theta(\hat{\omega}) > 0$ . Suppose instead that actions in  $A^-(\hat{\omega})$  are played infinitely often. Then there must exist

some  $\gamma > 0$  such that  $\mathbb{E} \ln \frac{q^*(y|a_t)}{q^\theta(y|a_t, \hat{\omega})} > \gamma$  for infinitely many  $t$ . So we have

$$\mathbb{E} \ln \frac{q^{\theta'}(y|a_t, \hat{\omega})}{q^\theta(y|a_t, \hat{\omega})} = \mathbb{E} \ln \left( \mu + (1 - \mu) \frac{q^*(y|a_t)}{q^\theta(y|a_t, \hat{\omega})} \right) > (1 - \mu)\gamma$$

where the inequality follows from the concavity of the logarithm function. Therefore,

$$\begin{aligned} \lambda_t &= \frac{\sum_{\omega \in \Omega^\theta} \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_\tau, \omega) \pi_0^\theta(\omega)}{\sum_{\omega \in \Omega^\theta} \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega) \pi_0^\theta(\omega)} \\ &> \pi_t^\theta(\hat{\omega}) \frac{\pi_0^\theta(\hat{\omega}) \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_t, \hat{\omega})}{\pi_0^\theta(\hat{\omega}) \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \hat{\omega})} \\ &= \pi_t^\theta(\hat{\omega}) \exp \left[ \sum_{\tau=0}^{t-1} 1_{\{a_\tau \in A^-(\hat{\omega})\}} \ln \frac{q^{\theta'}(y_\tau|a_t, \hat{\omega})}{q^\theta(y_\tau|a_\tau, \hat{\omega})} \right], \end{aligned}$$

which, by Lemma 4, a.s. increases to infinity when  $m_t$  converges to  $\theta$  and  $\liminf_{t \rightarrow \infty} \pi_t^\theta(\hat{\omega}) > 0$ . This implies that, letting  $\hat{\Omega}^\theta := \{\omega \in \Omega^\theta : \liminf_{t \rightarrow \infty} \pi_t^\theta(\hat{\omega}) > 0\}$ , on the paths where  $m_t$  eventually equals  $\theta$ , there almost surely exists  $T$  such that  $a_t \in \mathcal{A} \setminus \cup_{\hat{\omega} \in \hat{\Omega}^\theta} A^-(\hat{\omega})$ ,  $\forall t > T$ . Since  $q^\theta(\cdot|a, \hat{\omega})$  is equal to  $q^*(\cdot|a)$  for all  $\hat{\omega} \in \hat{\Omega}^\theta$  and all  $a \in \mathcal{A} \setminus \cup_{\hat{\omega} \in \hat{\Omega}^\theta} A^-(\hat{\omega})$ , the posterior  $\pi_t^\theta$  must converge to a limit  $\pi_\infty^\theta$ . The rest of the arguments are identical to those in the proof of Lemma 1; it follows that  $\theta$  must admit a p-absorbing SCE.  $\square$

### B.3 Proof of Corollary 1

I prove this result assuming the agent is myopic. I show below that any quasi-strict SCE satisfies a stability property stronger than p-absorbingness, which then immediately implies Corollary 1.

**Lemma 9.** *Suppose  $\sigma$  is a quasi-strict SCE with supporting belief  $\hat{\pi}$ , then for any  $\gamma \in (0, 1)$ , there exists  $\epsilon > 0$  such that starting from any prior  $\pi_0^\theta \in B_\epsilon(\hat{\pi})$ , the probability that the  $\theta$ -modeler always plays actions in  $\text{supp}(\sigma)$  for all periods is strictly larger than  $\gamma$ .*

*Proof.* If  $\sigma$  is quasi-strict, then  $\text{supp}(\sigma) = A_m^\theta(\hat{\pi})$ . Since  $A^\theta$  is upper hemicontinuous (Lemma 6), there exists  $\tilde{\epsilon} > 0$  small enough such that  $\text{supp}(\sigma) \supset A^\theta(\pi)$  for all  $\pi \in B_{\tilde{\epsilon}}(\hat{\pi})$ .

Suppose  $a_t \in \text{supp}(\sigma)$ ,  $\forall t \geq 0$ , then for every  $\omega \in \Omega^\theta \setminus \Omega^\theta(\sigma)$ ,

$$\begin{aligned} \mathbb{E} \left[ \frac{\pi_t^\theta(\omega)}{\pi_t^\theta(\Omega^\theta(\sigma))} | h_t \right] &= \mathbb{E} \left[ \frac{\pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega)}{\sum_{\omega' \in \Omega^\theta(\sigma)} \pi_0^\theta(\omega') \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega')} | h_t \right] \\ &= \mathbb{E} \left[ \frac{\pi_0^\theta(\omega)}{\pi_0^\theta(\Omega^\theta(\sigma))} \frac{\prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega)}{\prod_{\tau=0}^{t-1} q^*(y_\tau | a_\tau)} | h_t \right] \\ &= \frac{\pi_0^\theta(\omega) \prod_{\tau=0}^{t-2} q^\theta(y_\tau | a_\tau, \omega)}{\pi_0^\theta(\Omega^\theta(\sigma)) \prod_{\tau=0}^{t-2} q^*(y_\tau | a_\tau)} = \frac{\pi_{t-1}^\theta(\omega)}{\pi_{t-1}^\theta(\Omega^\theta(\sigma))} \end{aligned}$$

Therefore,  $\frac{\pi_t^\theta(\omega)}{\pi_t^\theta(\Omega^\theta(\sigma))}$  is a non-negative supermartingale for every  $\omega \in \Omega^\theta \setminus \Omega^\theta(\sigma)$ . It follows that  $\frac{\pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))}{\pi_t^\theta(\Omega^\theta(\sigma))}$  is also non-negative supermartingale. By the Ville's maximal inequality for supermartingales, for any  $\eta > 0$ ,

$$\mathbb{P}_D \left( \frac{\pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))}{\pi_t^\theta(\Omega^\theta(\sigma))} \geq \eta \text{ for some } t \right) < \frac{1}{\eta} \frac{\pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))}{\pi_0^\theta(\Omega^\theta(\sigma))}.$$

Since  $\pi_t^\theta(\Omega^\theta(\sigma)) = 1 - \pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))$ , the above inequality implies that

$$\mathbb{P}_D \left( \pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) \geq \frac{\eta}{1 + \eta} \text{ for some } t \right) < \frac{1}{\eta} \frac{\pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))}{\pi_0^\theta(\Omega^\theta(\sigma))}.$$

Pick some  $\epsilon \in (0, \tilde{\epsilon})$  and  $\pi_0^\theta \in B_\epsilon(\hat{\pi})$ , then  $\pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) < \epsilon$ . Notice that the ratio  $\frac{\pi_t^\theta(\omega)}{\pi_t^\theta(\omega')}$  remain unchanged throughout all periods for any  $\omega, \omega' \in \Omega^\theta(\sigma)$ . Hence, if  $\pi_t^\theta \notin B_{\tilde{\epsilon}}(\hat{\pi})$  for some  $t \geq 0$ , then there exists  $t$  such that  $\pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) \geq \pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) + \tilde{\epsilon} - \epsilon$ . Using the previous inequality,

$$\begin{aligned} &\mathbb{P}_D(\pi_t^\theta \notin B_{\tilde{\epsilon}}(\hat{\pi}) \text{ for some } t \geq 0) \\ &\leq \mathbb{P}_D(\pi_t^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) \geq \pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) + \tilde{\epsilon} - \epsilon \text{ for some } t) \\ &< \left( \frac{1}{\pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma)) + \tilde{\epsilon} - \epsilon} - 1 \right) \frac{\pi_0^\theta(\Omega^\theta \setminus \Omega^\theta(\sigma))}{\pi_0^\theta(\Omega^\theta(\sigma))} \\ &< \left( \frac{1}{\tilde{\epsilon} - \epsilon} - 1 \right) \frac{\epsilon}{1 - \epsilon} \end{aligned}$$

which converges to 0 as  $\epsilon$  approaches 0. This implies that for any  $\gamma \in (0, 1)$  we have  $\mathbb{P}_D(\pi_t^\theta \in B_{\tilde{\epsilon}}(\hat{\pi}), \forall t \geq 0) > \gamma$  when  $\epsilon$  is sufficiently small. Notice that  $\pi_t^\theta \in B_{\tilde{\epsilon}}(\hat{\pi}), \forall t \geq 0$  in turn implies that  $a_t \in \text{supp}(\sigma), \forall t \geq 0$ , validating our assumption. □

## B.4 Proof of Theorem 2(i)

**Necessity.** Suppose  $\theta$  is locally robust at some full-support prior  $\pi_0^\theta$ . It follows from Theorem 1 and identifiability that there exists  $\hat{\omega} \in \Omega^\theta$  such that the degenerate belief  $\delta_{\hat{\omega}}$  supports a p-absorbing SCE under  $\theta$ , i.e.  $C^\theta \neq \emptyset$ .

**Sufficiency.** Suppose  $C^\theta \neq \emptyset$ . Take any  $\hat{\omega} \in C^\theta$  and any full-support prior  $\pi_0^\theta$ . Consider the probability measure  $\mathbb{P}_S^{\theta, \hat{\omega}}$ , i.e. the probability measure over infinite histories  $H$  induced by the switcher if the true DGP is as described by  $\theta$  and  $\hat{\omega}$ . By identifiability and Lemma 4, the posterior  $\pi_t^\theta$  converges to  $\delta_{\hat{\omega}}$  almost surely under  $\mathbb{P}_S^{\theta, \hat{\omega}}$ . So for any  $\mu > 0$ , we can find a positive measure of length- $T$  histories  $\hat{H}_T$  where the posterior for model  $\theta$  enters the  $\mu$ -neighborhood of  $\delta_{\hat{\omega}}$ , i.e.  $\pi_T^\theta \in B_\mu(\delta_{\hat{\omega}})$ . Let  $\mu$  be small enough so that the posterior  $\pi_T^\theta(\hat{\omega}) > 1/\sqrt{\alpha}$ . By absolute continuity (Assumption 4), we know  $\hat{H}_T$  is also realized with positive probability under the true measure  $\mathbb{P}_S$ .

Next I show that when  $\mathcal{Y}$  is discrete, we can choose  $\epsilon$  to be sufficiently small such that for any  $\theta' \in N_\epsilon(\theta)$  and prior  $\pi_0^{\theta'} \in N_\epsilon(\pi_0^\theta; \theta, \theta')$ , the Bayes factor  $\lambda_t$  never exceeds  $\sqrt{\alpha}$  before period  $T$ .<sup>34</sup> For each  $\omega \in \Omega^\theta$ , with a slight abuse of notation, denote the set of “nearby” parameters within  $\theta'$  by  $N_\epsilon(\omega; \theta') := \{\omega' \in \Omega^{\theta'} : d(Q^{\theta, \omega}, Q^{\theta', \omega'}) \leq \epsilon\}$ . Then we have  $q^{\theta'}(y|a, \omega') \leq q^\theta(y|a, \omega) + \epsilon$  for all  $y \in \mathcal{Y}$ ,  $a \in \mathcal{A}$ , and  $\omega' \in N_\epsilon(\omega; \theta')$ . Let  $\epsilon$  be sufficiently small such that  $N_\epsilon(\omega; \theta')$  is disjoint across  $\Omega^\theta$ . By construction we have  $\pi_0^{\theta'}(N_\epsilon(\omega; \theta')) \leq \pi_0^\theta(\omega) + \epsilon$ . Hence,

$$\begin{aligned} \lambda_t &= \frac{\ell_t(\theta')}{\ell_t(\theta)} = \frac{\sum_{\omega \in \Omega^\theta} \sum_{\omega' \in N_\epsilon(\omega; \theta')} \pi_0^{\theta'}(\omega') \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau|a_\tau, \omega')}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega)} \\ &\leq \frac{\sum_{\omega \in \Omega^\theta} (\pi_0^\theta(\omega) + \epsilon) \prod_{\tau=0}^{t-1} (q^\theta(y_\tau|a_\tau, \omega) + \epsilon)}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau|a_\tau, \omega)} \\ &= \max_{\omega \in \Omega^\theta} \left( 1 + \frac{\epsilon}{\pi_0^\theta(\omega)} \right) \prod_{\tau=0}^{t-1} \left( 1 + \frac{\epsilon}{q^\theta(y_\tau|a_\tau, \omega)} \right). \end{aligned}$$

We can choose  $\epsilon$  to be sufficiently small so that  $\lambda_t$  does not exceed  $\sqrt{\alpha} > 1$  for  $t = 0, \dots, T$  regardless of the action and outcome history.

Finally, note that for any  $t > T$ , we can write

$$\lambda_t = \lambda_T \frac{\sum_{\omega' \in \Omega^{\theta'}} \prod_{\tau=T}^{t-1} \pi_\tau^{\theta'}(\omega') q^{\theta'}(y_\tau|a_\tau, \omega')}{\sum_{\omega \in \Omega^\theta} \prod_{\tau=T}^{t-1} \pi_\tau^\theta(\omega) q^\theta(y_\tau|a_\tau, \omega)} := \lambda_T \lambda_{T,t}.$$

<sup>34</sup>The proof for the case of a continuous  $\mathcal{Y}$  can be found in Appendix C.

Recall that on histories  $\hat{H}_T$  we have  $\pi_T^\theta(\hat{\omega}) > 1/\sqrt{\alpha}$ , so we can use the same arguments as in the proof of Theorem 2(ii) to show that  $\mathbb{P}_S(\lambda_{T,t} \leq \sqrt{\alpha}, \forall t > T) > 0$ . Since on  $\hat{H}_T$  we have no switches before period  $T$  and  $\epsilon$  is small enough such that  $\lambda_T < \sqrt{\alpha}$ , we have  $\mathbb{P}_S(\lambda_t \leq \alpha, \forall t \geq 0) \geq \mathbb{P}_S(\hat{H}_T) \cdot \mathbb{P}_S(\lambda_{T,t} \leq \sqrt{\alpha}, \forall t > T) > 0$ .  $\square$

## B.5 Proof of Theorem 2(ii) and (iii)

Note that part (iii) immediately follows from part (ii). I now prove part (ii) in two steps.

**Necessity.** Suppose  $\theta$  is globally robust at prior  $\pi_0^\theta$ . By Theorem 1, we know that there must exist a p-absorbing SCE under  $\theta$ . By identifiability, any SCE can only be supported by a pure belief, and hence  $C^\theta \neq \emptyset$ . Pick any prior  $\pi_0^\theta$  such that  $\pi_0^\theta(C^\theta) < 1/\alpha$ .

Let us construct a competing model  $\theta'$  such that it contains the prediction of  $C^\theta$  and the true DGP. In particular, let  $\Omega^{\theta'} = C^\theta \cup \{\omega^*\}$  and let predictions  $q^{\theta'}$  satisfy that for all  $a \in \mathcal{A}$ ,

$$q^{\theta'}(\cdot|a, \omega) = \begin{cases} q^\theta(\cdot|a, \omega) & \text{if } \omega \in C^\theta, \\ q^*(\cdot|a) & \text{if } \omega = \omega^*. \end{cases}$$

In addition, pick some  $\epsilon \in (0, 1)$  and let the prior  $\pi_0^{\theta'}$  be such that

$$\pi_0^{\theta'}(\omega) = \begin{cases} (1 - \epsilon) \frac{\pi_0^\theta(\omega)}{\pi_0^\theta(C^\theta)} & \text{if } \omega \in C^\theta, \\ \epsilon & \text{if } \omega = \omega^*. \end{cases}$$

Since  $\theta'$  is correctly specified, by Lemma 1, on the paths where  $m_t$  eventually equals  $\theta$ , the agent eventually only play actions in the support of a SCE almost surely, and her posterior converges to a supporting belief of the SCE, i.e.  $\pi_t^\theta(C^\theta) \xrightarrow{\text{a.s.}} 1$ . By construction

$$\ell_t(\theta') = (1 - \epsilon) \sum_{\omega \in C^\theta} \frac{\pi_0^\theta(\omega)}{\pi_0^\theta(C^\theta)} \ell_t(\theta, \omega) + \epsilon \ell_t(\theta^*),$$

so we have

$$\frac{\ell_t(\theta')}{\ell_t(\theta)} = (1 - \epsilon) \frac{\pi_t^\theta(C^\theta)}{\pi_0^\theta(C^\theta)} + \epsilon \frac{\ell_t(\theta^*)}{\ell_t(\theta)}.$$

Since  $\theta'$  is correctly specified, by Lemma 1, on paths where  $m_t$  eventually equals  $\theta$ , the first term almost surely converges to  $(1 - \epsilon) \frac{1}{\pi_0^\theta(C^\theta)}$ . Since  $\pi_0^\theta(C^\theta) < 1/\alpha$ , there exists a small enough  $\epsilon$  such that  $\frac{\ell_t(\theta')}{\ell_t(\theta)} > \alpha$  for sufficiently large  $t$ , contradicting the assumption that  $m_t$



eventually equals  $\theta$ .

**Sufficiency.** Suppose  $C^\theta \neq \emptyset$  and  $\pi_0^\theta(C^\theta) \geq 1/\alpha$ . Pick any competing model  $\theta'$  and a full-support prior  $\pi_0^{\theta'}$ . We will show that model  $\theta$  persists against  $\theta'$  at the given priors.

Define a new probability measure  $\hat{\mathbb{P}}$  over the action and outcome histories  $H$  such that for any histories  $\hat{H} \subset H$ ,

$$\hat{\mathbb{P}}(\hat{H}) = \sum_{\omega \in C^\theta} \frac{\pi_0^\theta(\omega)}{\pi_0^\theta(C^\theta)} \mathbb{P}_S^{\theta, \omega}(\hat{H}),$$

where  $\mathbb{P}_S^{\theta, \omega}$  is the probability measure over histories induced by the agent switcher if the true DGP is identical to the DGP prescribed by  $\theta$  and  $\omega$ . Define the following process,

$$\hat{\lambda}_t := \frac{1}{\pi_0^\theta(C^\theta)} \frac{\ell_t(\theta')}{\sum_{\omega \in C^\theta} \frac{\pi_0^\theta(\omega)}{\pi_0^\theta(C^\theta)} \ell_t(\theta, \omega)}.$$

Then it is a martingale w.r.t.  $\hat{\mathbb{P}}$  with  $\mathbb{E}^{\hat{\mathbb{P}}}(\hat{\lambda}_0) = 1/\pi_0^\theta(C^\theta)$ . By definition,  $\hat{\lambda}_t \geq \lambda_t$ , where the equality holds only if  $\Omega^\theta = C^\theta$ . By Ville's maximum inequality,

$$\hat{\mathbb{P}}(\lambda_t \leq \alpha, \forall t) \geq \hat{\mathbb{P}}(\hat{\lambda}_t \leq \alpha, \forall t) > 1 - \frac{1}{\pi_0^\theta(C^\theta)\alpha} \geq 0.$$

This then implies that there exists  $\hat{\omega} \in C^\theta$  such that

$$\mathbb{P}_S^{\theta, \hat{\omega}}(\lambda_t \leq \alpha, \forall t) > 0.$$

Since  $\theta$  has no traps, it is identifiable and all of its p-absorbing SCEs are quasi-strict. Identifiability implies that  $\mathbb{P}_S^{\theta, \hat{\omega}}(\pi_t^\theta(\hat{\omega})) \xrightarrow{\text{a.s.}} 1$ . With quasi-strictness, by Lemma 9, there exists  $\epsilon > 0$  such that the optimal actions must be in the support of a SCE when  $\pi_t^\theta(\hat{\omega}) > 1 - \epsilon$ . Taken together, the no-trap conditions imply that there exists  $T > 0$  such that with positive probability (measured by  $\mathbb{P}_S^{\theta, \hat{\omega}}$ ), the agent plays only SCE actions after period  $T$  and never switches. Denote the set of such histories by  $\hat{H}$ . Moreover, for any  $\hat{h} \in \hat{H}$ , denote the observable history for the first  $T$  periods by  $\hat{h}_{T-}$  and the history after the first  $T$  periods by  $\hat{h}_{T+}$ . Since  $T$  is finite, by absolute continuity (Assumption 2), for any  $\hat{h} \in \hat{H}$ , the history  $\hat{h}_{T-}$  also occurs with positive probability under the true measure  $\mathbb{P}_S$ . Conditional on  $\hat{h}_{T-}$ , since the agent plays only SCE actions on  $\hat{H}$  after the first  $T$  periods, the two probability

measures  $\mathbb{P}_S^{\theta, \hat{\omega}}$  and  $\mathbb{P}_S$  over  $\hat{H}$  are identical to each other. Therefore,

$$\begin{aligned}\mathbb{P}_S(\hat{H}_T) &= \sum_{\hat{h} \in \hat{H}_T} \mathbb{P}_S(\hat{h}_{T-}) \mathbb{P}_S(\hat{h}_{T+} | \hat{h}_{T-}) \\ &= \sum_{\hat{h} \in \hat{H}_T} \mathbb{P}_S(\hat{h}_{T-}) \mathbb{P}_S^{\theta, \hat{\omega}}(\hat{h}_{T+} | \hat{h}_{T-}) \\ &\geq \min_{\hat{h} \in \hat{H}_T} \frac{\mathbb{P}_S(\tilde{h}_{T-})}{\mathbb{P}_S^{\theta, \hat{\omega}}(\tilde{h}_{T-})} \mathbb{P}_S^{\theta, \hat{\omega}}(\hat{H}_T) > 0.\end{aligned}$$

This means that with positive probability (under the true probability measure  $\mathbb{P}_S$ ), the agent never switches to  $\theta'$ . Therefore, model  $\theta$  persists against  $\theta'$ .

## B.6 Proof of Corollary 2

Note that the proof of Theorem 2 does not use the assumption that  $\alpha > 1$ . Therefore, Corollary 2 is immediately implied by Theorem 2.

## B.7 Proof of Theorem 3

I show a more generalized version of Theorem 3:

*Suppose that the action frequency of a  $\theta$ -modeler almost surely converges under all full-support priors. If model  $\theta \in \Theta^{\bar{\theta}}$  is  $\bar{\theta}$ -constrained locally robust, then it must admit a  $p$ -absorbing BN-E  $\sigma$  at which  $\theta$  is locally KL-minimizing within the  $\bar{\theta}$ -family.*

Suppose no Berk-Nash equilibrium  $\sigma$  under  $\theta$  is locally KL-minimizing at  $\sigma$  within the  $\bar{\theta}$ -family, but  $\theta$  is  $\bar{\theta}$ -constrained locally robust within the  $\epsilon$ -neighborhood for some  $\epsilon > 0$ . Define a function  $K^{\bar{\theta}} : \Delta\mathcal{A} \times \Omega^{\bar{\theta}} \rightarrow \mathbb{R}$ , where

$$K^{\bar{\theta}}(\sigma, \omega) := \sum_{\mathcal{A}} \sigma(a) D_{KL}(q^*(\cdot | a) \parallel q(\cdot | a, \omega)). \quad (11)$$

That is,  $K^{\bar{\theta}}(\sigma, \omega)$  is the  $\sigma$ -weighted KL divergence between the prediction of  $\omega$  and the true DGP. Take any Berk-Nash equilibrium  $\sigma \in \Delta\mathcal{A}$  under  $\theta$ . By assumption, there must exist some parameter  $\omega' \in \Omega^{\bar{\theta}}$  such that  $\min_{\omega \in \Omega^{\bar{\theta}}} \|\omega - \omega'\| \leq \epsilon$  and

$$\min_{\omega \in \Omega^{\bar{\theta}}} K^{\bar{\theta}}(\sigma, \omega) > K^{\bar{\theta}}(\sigma, \omega'). \quad (12)$$

By continuity, there exists some open neighborhood of  $\sigma$ , denoted as  $O_\sigma$ , in which  $\omega'$  yields

a strictly lower KL divergence than  $\Omega^\theta$ , i.e.  $\forall \sigma' \in O_\sigma$ , we have

$$\min_{\omega \in \Omega^\theta} K^{\bar{\theta}}(\sigma', \omega) > K^{\bar{\theta}}(\sigma', \omega').$$

We know from Lemma 7 that the set of Berk-Nash equilibria under  $\theta$  is compact. Therefore, by the Heine-Borel theorem, there must exist a finite number of  $\epsilon$ -close parameters, collected by a set  $R_\epsilon \subset B_\epsilon(\Omega^\theta)$ , such that for any Berk-Nash equilibrium  $\sigma$ , we can find some parameter from the set  $R_\epsilon$  such that the above inequality (12) holds.

Consider a competing model  $\theta'$  with an expanded parameter space  $\Omega^{\theta'} = \Omega^\theta \cup R_\epsilon$ , and some prior  $\pi_0^{\theta'}$  that allocates a total probability of  $\epsilon$  evenly to  $R_\epsilon$ . Formally, let

$$\begin{aligned} \pi_0^{\theta'}(\omega) &= (1 - \epsilon) \pi_0^\theta(\omega), \forall \omega \in \Omega^\theta, \\ \pi_0^{\theta'}(\omega) &= \frac{\epsilon}{|R_\epsilon|}, \forall \omega \in R_\epsilon. \end{aligned}$$

Consider all possible histories in which the switcher eventually adopts  $\theta$ . It must be that  $\limsup_t \ell_{t \rightarrow \infty}(\theta') / \ell_t(\theta) \leq \alpha$  on those paths. Note that the switcher's action frequency a.s. converges to a Berk-Nash equilibrium by assumption. Consider the paths where this limit equilibrium is  $\sigma$ . Then we can find some  $T > 0$  and  $\eta > 0$  such that  $\forall t > T$ , there exists  $\omega'' \in R_\epsilon$  such that  $K^{\bar{\theta}}(\sigma_t, \omega'') - K^{\bar{\theta}}(\sigma_t, \omega) < -\eta, \forall \omega \in \Omega^\theta$ . It then follows that

$$\begin{aligned} \lambda_t^{\theta'} &= \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega') \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau | a_\tau, \omega')}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega)} \\ &> \frac{\frac{\epsilon}{|R_\epsilon|} \prod_{\tau=0}^{t-1} q^{\theta'}(y_\tau | a_\tau, \omega'')}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega)} \\ &= \frac{\epsilon}{|R_\epsilon|} \frac{1}{\sum_{\omega \in \Omega^\theta} \pi_0^\theta(\omega) \exp(t(K^{\bar{\theta}}(\sigma_t, \omega'') - K^{\bar{\theta}}(\sigma_t, \omega)))} \\ &> \frac{\epsilon}{|R_\epsilon|} \exp(t\eta) \end{aligned}$$

Therefore, for any  $\alpha > 0$ , almost surely,  $\ell_t^{\theta'} / \ell_t(\theta)$  exceeds  $\alpha$  for infinitely many  $t$ , contradicting the assumption that  $\limsup_{t \rightarrow \infty} \ell_t^{\theta'} / \ell_t(\theta) \leq \alpha$  on those paths. Therefore,  $\theta$  does not persist against  $\theta'$ . Since the choice of  $\epsilon$  is arbitrary, this implies that  $\theta$  is not  $\bar{\theta}$ -constrained locally robust.  $\square$

## B.8 A Necessary Condition for Constrained Local Robustness

The following theorem states a necessary condition for constrained local robustness in a special environment with binary actions.

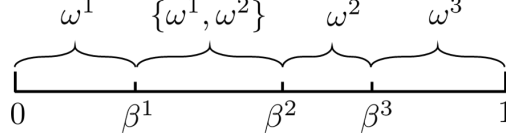


Figure 2: Example of a binary-action setting: Each point in the interval represents a mixed action's weight assigned to  $a^2$ ; the parameter(s) placed above a segment of the interval are the minimizer(s) of  $K^{\bar{\theta}}(\sigma, \omega)$  in  $\Omega^{\bar{\theta}}$  for all  $\sigma$  in this segment.

**Theorem 6.** *Suppose  $|\mathcal{A}| = 2$ . Then a model  $\theta \in \bar{\Theta}$  is  $\bar{\theta}$ -constrained locally robust only if it admits a BN-E  $\sigma$  at which  $\theta$  is locally KL-minimizing within the  $\bar{\theta}$ -family.*

The critical step in proving Theorem 6 is to show that a dogmatic modeler's action frequency almost surely enters an arbitrarily small neighborhood of the set of Berk-Nash equilibria infinitely often. From here, we can use an analogous argument to the proof of Theorem 3. I use Figure 2 to illustrate this first step.

When the action space is binary, we can write any mixed action as  $\beta \cdot a^1 + (1 - \beta) \cdot a^2$ , where  $\beta \in [0, 1]$ . Therefore, the strategy space can be represented as the unit interval denoting the set of possible weights on  $a^2$ . To add more structure, suppose that the parameter space  $\Omega^{\bar{\theta}}$  has four elements, each of which is a KL-minimizer in  $\Omega^{\bar{\theta}}$  at some mixed strategies. Since the KL divergence is continuous in the probability of each action, it is straightforward to show that the set of mixed strategies at which a parameter is a KL-minimizer is compact and connected. For example, in Figure 2,  $\omega^1$  uniquely minimizes the KL divergence when evaluated at a mixed action when  $\beta \in [0, \beta^1]$ , while both  $\omega^1$  and  $\omega^2$  are minimizers when  $\beta \in [\beta^1, \beta^2]$ . Restrict attention to the set of paths where the sequence of the action frequency  $\{\sigma_t\}_t$  is such that both  $\omega^1$  and  $\omega^2$  are KL-minimizers infinitely often but not  $\omega^3$ . Since the action space is binary, if  $\sigma_t$  enters two non-connected regions on the unit interval infinitely often, it must also cross the region in between infinitely often.<sup>35</sup> This implies that  $\sigma_t$  must enter  $[\beta^1, \beta^2]$  infinitely often. To generate this pattern, it must be that  $a^2 \in A_m^{\bar{\theta}}(\delta_{\omega^1})$  and  $a^1 \in A_m^{\bar{\theta}}(\delta_{\omega^2})$ , because otherwise only one action will be played in the limit. Thus, there exists a mixed belief over  $\omega^1$  and  $\omega^2$  that makes the myopic agent indifferent between the actions. Since both  $\omega^1$  and  $\omega^2$  are KL-minimizers when  $\beta \in [\beta_1, \beta_2]$ , any mixed action with  $\beta \in [\beta_1, \beta_2]$  is a BN-E, supported by the aforementioned mixed belief. Therefore, the agent's action frequency is almost surely arbitrarily close to the set of Berk-Nash equilibria infinitely often. The argument for other cases is analogous.

<sup>35</sup>This does not hold when  $|\mathcal{A}| \geq 3$  because there can be multiple paths connecting any two mixed actions. In fact, Example 2 in Esponda et al. (2019) describes a setting with  $|\mathcal{A}| = 3$ , in which the dogmatic modeler's action frequency almost surely oscillates around the unique Berk-Nash equilibrium but remains bounded away from it.

*Proof.* We only need to show that given any  $\epsilon > 0$ , almost surely, a dogmatic modeler's action frequency  $\sigma_t$  enters the  $\epsilon$ -neighborhood of some Berk-Nash equilibrium infinitely often from every full-support prior and policy. Then using a similar argument as in the proof of Theorem 3, it can be shown that  $\theta$  is not  $\bar{\theta}$ -constrained locally robust if there is no Berk-Nash equilibrium  $\sigma$  such that  $\theta$  is locally KL-minimizing at  $\sigma$ .

For convenience, let  $\mathcal{A} = \{a^1, a^2\}$ . First, consider the paths where  $\sigma_t$  converges to some limit  $\sigma$ , denoted by  $H^1$ . Then Lemma 5 tells us that  $\pi_t^\theta(\Omega^\theta(\sigma))$  converges to 1. Therefore, any action  $a \notin \cup_{\pi \in \Delta\Omega^\theta(\sigma)} A_m^\theta(\pi)$  cannot be in the support of  $\sigma$ . Hence, for each action  $a$  in the support of  $\sigma$ , there exists some belief  $\pi_a \in \Delta\Omega^\theta(\sigma)$  such that  $a \in A_m^\theta(\pi_a)$ . If  $\text{supp}(\sigma)$  is a singleton, then this immediately implies that  $\sigma$  is a Berk-Nash equilibrium. If instead  $\text{supp}(\sigma) = \{a^1, a^2\}$ , then by the hemi-continuity of  $A_m^\theta$ , there must exist some  $\pi_\sigma \in \Delta\Omega^\theta(\sigma)$  such that  $\{a^1, a^2\} = A_m^\theta(\pi_\sigma)$ , which again implies that  $\sigma$  is a Berk-Nash equilibrium. Therefore, her action frequency  $\sigma_t$  enters the  $\epsilon$ -neighborhood of some Berk-Nash equilibrium infinitely often for any  $\epsilon > 0$  almost surely on  $H^1$ .

Now consider paths where her action frequency oscillates forever, denoted by  $H^2$ . Let  $\Omega_\infty^\theta$  be the set of all parameters in  $\Omega^\theta$  that are KL-minimizers infinitely often, i.e.  $\Omega_\infty^\theta = \{\omega \in \Omega^\theta : \omega \in \Omega^\theta(\sigma_t) \text{ for infinitely many } t \text{ on } H^2\}$ . Take any  $\omega \in \Omega_\infty^\theta$ . Suppose that  $A_m^\theta(\delta_\omega) = \{a^1, a^2\}$ , then each action frequency  $\sigma_\omega$  that satisfies  $\omega \in \Omega^\theta(\sigma_\omega)$  is a Berk-Nash equilibrium. By construction, this means  $\sigma_t$  constitutes a Berk-Nash equilibrium infinitely often.

Suppose instead that  $\forall \omega \in \Omega_\infty^\theta$ , we have that  $A_m^\theta(\delta_\omega)$  is singleton. Since  $\sigma_t$  oscillates,  $\Omega_\infty^\theta$  cannot be a singleton. It must be that  $A_m^\theta(\delta_\omega) = \{a^1\}$  for some  $\omega \in \Omega_\infty^\theta$  and or  $A_m^\theta(\delta_{\omega'}) = \{a^2\}$  for some other  $\omega' \in \Omega_\infty^\theta$ . Given any  $\omega$  and  $\omega' \in \Omega_\infty^\theta$ , say they are *related* if there exists some mixed action  $\sigma$  such that  $\omega, \omega' \in \Omega^\theta(\sigma)$ . I now show that there must exist such a pair of related parameters such that  $A_m^\theta(\delta_\omega) = \{a^1\}$  and  $A_m^\theta(\delta_{\omega'}) = \{a^2\}$ .

First of all, every parameter in  $\Omega_\infty^\theta$  must be related to some other parameter in  $\Omega_\infty^\theta$ . Suppose not for the sake of a contradiction. Then there exists some "isolated" parameter  $\omega^* \in \Omega_\infty^\theta$  in the following sense: let  $C_\omega = \{\beta \in [0, 1] : \omega \in \Omega^\theta(\beta a^1 + (1 - \beta)a^2)\}$ , then there exists some positive constant  $\gamma$  such that  $B_\gamma(C_{\omega^*}) \cap (\cup_{\omega \in \Omega_\infty^\theta \setminus \{\omega^*\}} C_\omega) = \emptyset$ . However, since  $\omega^*$  is a KL-minimizer infinitely often, it happens infinitely often that  $\sigma_t \in C_{\omega^*}$ . It implies that some KL-minimizer at  $\sigma \in B_\gamma(C_{\omega^*}) \setminus C_{\omega^*}$  should also be a KL-minimizer at  $\sigma_t$  infinitely often yet not included by  $\Omega_\infty^\theta$ , contradicting the definition of  $\Omega_\infty^\theta$ . By the same logic, there cannot be two cliques in  $\Omega_\infty^\theta$  such that every parameter in the first clique is unrelated to every parameter in the second clique.

Hence, if every pair of related parameters in  $\Omega_\infty^\theta$  induce the same optimal action, then  $A_m^\theta(\delta_\omega) = \{a^1\}$  or  $\{a^2\}$  for all  $\omega \in \Omega_\infty^\theta$ , which we know is not true. Therefore, there exists a related pair  $\omega, \omega' \in \Omega_\infty^\theta$  such that  $A_m^\theta(\delta_\omega) = \{a^1\}$  and  $A_m^\theta(\delta_{\omega'}) = \{a^2\}$ . Therefore, each

mixed action in  $C_\omega \cap C_{\omega'}$  is a Berk-Nash equilibrium. Notice that each  $C_\omega$  is compact and convex. Since  $\sigma_t$  enters both  $C_\omega$  and  $C_{\omega'}$  infinitely many times, it must be that  $\sigma_t$  enters the  $\epsilon$ -neighborhood of  $C_\omega \cap C_{\omega'}$  infinitely often for any  $\epsilon > 0$ . The proof is now complete.  $\square$

## B.9 Proof of Theorem 4

**Part (i).** Suppose  $\sigma$  is a pure p-absorbing BN-E with  $\theta$  being locally dominant at  $\sigma$  within the  $\bar{\theta}$ -family, and  $\sigma$  assigns probability 1 to  $\hat{a} \in \mathcal{A}$ . Then there exists a full-support prior  $\pi_0^\theta$  such that a  $\theta$ -modeler eventually only plays  $\hat{a}$  with positive probability. It follows from Lemma 5 that  $\pi_t^\theta(\Omega^\theta(\sigma)) \xrightarrow{a.s.} 1$ . For any  $\zeta, \gamma \in (0, 1)$ , using a similar argument as in Lemma 8, we know that there exists a full-support prior  $\pi_0^\theta$  with  $\pi_0^\theta(\Omega^\theta(\sigma)) > \gamma$  such that with probability higher than  $\zeta$ , a  $\theta$ -modeler plays  $a_t = \hat{a}$  for all  $t \geq 0$ .

Since  $\Omega^\theta$  is finite, there exists  $\epsilon_1 > 0$  such that whenever  $\epsilon < \epsilon_1$ , the  $\epsilon$ -neighborhoods of any  $\omega \in \Omega^\theta$  and  $\tilde{\omega} \in \Omega^\theta$  do not coincide. It follows from Lemma 2 in Frick et al. (2021a) that the local dominant condition implies that all KL-minimizers in  $\Omega^\theta(\sigma)$  correspond to the same distribution under  $\sigma$ . Moreover, there exists  $\epsilon_2 > 0$  s.t. whenever  $\epsilon < \epsilon_2$ , we have

$$\mathbb{E} \left( \frac{q(\cdot|a, \omega')}{q(\cdot|a, \omega)} \right)^d < 1$$

for all  $\omega \in \Omega^\theta(\sigma)$ , all  $\omega' \in \Omega^{\bar{\theta}} \cap B_\epsilon(\Omega^\theta(\sigma)) \setminus \Omega^\theta(\sigma)$ , and all  $a \in \text{supp}(\sigma)$ .

Let  $\epsilon < \min\{\epsilon_1, \epsilon_2\}$ . Pick any competing model  $\theta' \in N_\epsilon^{\bar{\theta}}(\theta)$  with belief  $\pi_0^{\theta'} \in N_\epsilon^{\bar{\theta}}(\pi_0^\theta)$ . Then there exists a correspondence  $\iota : \Omega^\theta \rightrightarrows \Omega^{\theta'}$  s.t.  $\iota(\omega) = \Omega^{\theta'} \cap B_\epsilon(\omega) \setminus \Omega^\theta(\sigma)$  and  $\cup_{\Omega^\theta} \iota(\omega) \equiv \Omega^{\theta'} \setminus \Omega^\theta(\sigma)$ . Pick any  $\hat{\omega} \in \Omega^\theta(\sigma)$ . Since  $q$  is uniformly continuous in  $\omega$ , there exists  $\epsilon_3 \leq \epsilon_2$  such that if  $\epsilon < \epsilon_3$ , then at all actions  $a \in \text{supp}(\sigma)$ , we have

$$\mathbb{E} \left( \frac{\sum_{\omega' \in \iota(\omega)} f(\omega') q(\cdot|a, \omega')}{q(\cdot|a, \hat{\omega})} \right)^d < 1$$

for all  $\omega \in \Omega^\theta \setminus \Omega^\theta(\sigma)$  and all probability distributions  $f$  over  $\iota(\omega)$ , and

$$\mathbb{E} \left( \frac{\sum_{\omega' \in \cup_{\Omega^\theta(\sigma)} \iota(\omega)} f(\omega') q(\cdot|a, \omega')}{q(\cdot|a, \hat{\omega})} \right)^d < 1$$

for all probability distributions  $f$  over  $\cup_{\Omega^\theta(\sigma)} \iota(\omega)$ .

Denote the likelihood of outcomes under the predictions of  $q$  and  $\omega$  by  $\ell_t(q, \omega)$ , i.e.  $\ell_t(q, \omega) := \prod_{\tau=0}^{t-1} q(y_\tau|a_\tau, \omega)$ . Let  $\xi_t$  be an indicator function such that  $\xi_t = 1$  if  $a_t = \hat{a}$  and  $\xi_t = 0$  otherwise. Note that  $\xi_t$  is adapted to the filtration of  $H_t$ . Define a data-generating

process  $\hat{q}$  as follows,

$$\hat{q}(\cdot|a_t, \hat{\omega}) := \xi_t q(\cdot|a_t, \hat{\omega}) + (1 - \xi_t) q^*(\cdot|a_t).$$

For any  $\omega \in \Omega^\theta \setminus \Omega^\theta(\sigma)$  and any distribution  $f$  over  $\iota(\omega)$ , we have

$$\begin{aligned} & \mathbb{E}^{\mathbb{P}_D} \left( \left( \frac{\sum_{\omega' \in \iota(\omega)} f(\omega') \ell_t(q, \omega')}{\ell_t(\hat{q}, \hat{\omega})} \right)^d \middle| h_t \right) \\ &= \left( \frac{\sum_{\omega' \in \iota(\omega)} f(\omega') \ell_{t-1}(q, \omega')}{\ell_{t-1}(\hat{q}, \hat{\omega})} \right)^d \mathbb{E}^{\mathbb{P}_D} \left( \left( \frac{\sum_{\omega' \in \iota(\omega)} \hat{f}(\omega') q(y_t|a_t, \omega')}{\hat{q}(y_t|a_t, \hat{\omega})} \right)^d \middle| h_t \right) \\ &< \left( \frac{\sum_{\omega' \in \iota(\omega)} f(\omega') \ell_{t-1}(q, \omega')}{\ell_{t-1}(\hat{q}, \hat{\omega})} \right)^d, \end{aligned}$$

where  $\hat{f}(\omega') = f(\omega') \ell_{t-1}(q, \omega') / (\sum_{\omega'' \in \iota(\omega)} f(\omega'') \ell_{t-1}(q, \omega''))$ . Hence, by Ville's maximal inequality for supermartingales, we know that for any  $\kappa > 1$ ,

$$\mathbb{P}_D \left( \frac{\sum_{\omega' \in \iota(\omega)} f(\omega') \ell_t(q, \omega')}{\ell_t(\hat{q}, \hat{\omega})} \leq \kappa, \forall t \right) \geq 1 - \frac{1}{\kappa^d}.$$

Similarly, for all probability distributions  $f$  over  $\cup_{\Omega^\theta(\sigma)} \iota(\omega)$  and any  $\eta \in (1, \alpha)$ , we have that

$$\mathbb{P}_D \left( \frac{\sum_{\omega' \in \cup_{\Omega^\theta(\sigma)} \iota(\omega)} f(\omega') \ell_t(q, \omega')}{\ell_t(\hat{q}, \hat{\omega})} \leq \eta, \forall t \right) \geq 1 - \frac{1}{\eta^d}.$$

Let  $M := |\Omega^\theta \setminus \Omega^\theta(\sigma)|$ . When  $\kappa$  is sufficiently large, we have

$$\begin{aligned} & \mathbb{P}_D \left( \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi^{\theta'}(\omega') \ell_t(q, \omega')}{\ell_t(\hat{q}, \hat{\omega})} \leq \pi^{\theta'}(\Omega^\theta(\sigma)) + \pi^{\theta'}(\iota(\Omega^\theta(\sigma)))\eta + \pi^{\theta'}(\iota(\Omega^\theta \setminus \Omega^\theta(\sigma)))\kappa, \forall t \geq 0 \right) \\ & \geq 1 - \frac{1}{\eta^d} + M \cdot \left( 1 - \frac{1}{\kappa^d} \right) - M = 1 - \frac{1}{\eta^d} - \frac{M}{\kappa^d} > 0 \end{aligned} \quad (13)$$

where the first inequality follows from the inequality  $P(A_1 \dots A_n) \geq P(A_1) + \dots + P(A_n) - (n-1)$  for random events  $A_1, \dots, A_n$ . Note that when  $\pi^{\theta'} \in N_\epsilon^{\bar{\theta}}(\pi^\theta)$  and  $\pi^\theta(\Omega^\theta(\sigma)) > \gamma$ , we have

$$\pi^{\theta'}(\Omega^\theta(\sigma)) + \pi^{\theta'}(\iota(\Omega^\theta(\sigma)))\eta + \pi^{\theta'}(\iota(\Omega^\theta \setminus \Omega^\theta(\sigma)))\kappa \leq \eta + (1 - \gamma + \epsilon)\kappa.$$

Using the observation we derived in the first paragraph, we know that there exists a full-support prior  $\pi_0^\theta$  under which with probability larger than  $\frac{1}{\eta^d} + \frac{M}{\kappa^d}$ , the dogmatic modeler's behavior satisfies that  $a_t = \hat{a}$  and  $\pi_t^\theta(\Omega^\theta(\sigma)) > \gamma, \forall t \geq 0$ . Note that when  $a_t = \hat{a}$  for all  $t \geq 0$ ,



we have  $\hat{q}(\cdot|a_t, \hat{\omega}) \equiv q(\cdot|a_t, \hat{\omega})$  for all  $t \geq 0$ . Using the inequality  $P(AB) \geq P(A) + P(B) - 1$  for random events  $A$  and  $B$ , we know that when  $\epsilon < \min\{\epsilon_1, \epsilon_2, \epsilon_3\}$ , there exists a full-support prior  $\pi_0^\theta$  such that the following event happens with positive probability:

$$a_t = \hat{a} \text{ and } \pi_t^\theta(\Omega^\theta(\sigma)) > 1 - \epsilon, \forall t \geq 0$$

$$\frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega') \ell_t(q, \omega')}{\ell_t(q, \hat{\omega})} \leq \eta + (1 - \gamma + \epsilon)\kappa, \forall t \geq 0$$

When  $\epsilon$  is small enough and  $\gamma$  is sufficiently close to 1, conditional on the above event, we have

$$\frac{\ell_t(\theta')}{\ell_t(\theta)} < \frac{\sum_{\omega' \in \Omega^{\theta'}} \pi_0^{\theta'}(\omega') \ell_t(q, \omega')}{\pi_0^\theta(\Omega^\theta(\sigma)) \ell_t(q, \hat{\omega})} < \frac{\eta + (1 - \gamma + \epsilon)\kappa}{\gamma} < \alpha.$$

Hence, conditional on this event, the switcher never switches to the competing model  $\theta'$ . It follows that the switcher adopts  $\theta$  forever with positive probability w.r.t.  $\mathbb{P}_S$ .

**Part (ii).** Suppose in addition that model  $\theta$  has no traps. Denote by  $\hat{\omega}$  the consistent parameter associated with the pure p-absorbing BNE at which  $\theta$  is locally dominant within the  $\bar{\theta}$ -family. A similar argument as in the proof of Theorem 2 implies that for all  $\gamma \in (0, 1)$ , starting from any full-support prior  $\pi_0^\theta$ , there exists  $\epsilon_4$  and a positive number  $T$  such that when  $\epsilon < \epsilon_4$  and the competing model  $\theta'$  is  $\epsilon$ -close to  $\theta$ , the Bayes factor never exceeds  $\sqrt{\alpha}$  before period  $T$  and  $\pi_T^\theta(\hat{\omega}) > \gamma$ .

On the other hand, we have the following lemma, which mirrors Lemma 9 but applies to a strict BN-E. The proof uses similar argument and thus is omitted.

**Lemma 10.** *Suppose  $\hat{a}$  is a strict BN-E with supporting belief  $\delta_{\hat{\omega}}$ , then for any  $\zeta \in (0, 1)$ , there exists  $\gamma \in (0, 1)$  such that starting from any prior  $\pi_0^\theta \in B_{1-\gamma}(\delta_{\hat{\omega}})$ , the probability that the  $\theta$ -modeler always actions in  $\text{supp}(\sigma)$  for all periods is strictly larger than  $\zeta$ .*

Following the same steps in the proof of Part (i), we can show that there exists a small enough  $\gamma$ , whose value depends only on the characteristics of model  $\theta$  and  $\epsilon$  but not the specific competing model, such that with any belief  $\pi_T^\theta \in B_{1-\gamma}(\delta_{\hat{\omega}})$ , the switcher adopts model  $\theta$  for all periods after  $T$  with positive probability. Therefore, model  $\theta$  is  $\bar{\theta}$ -constrained locally robust at all priors.

## B.10 Proof of Theorem 5

To show that Theorem 1 continues to hold when  $\alpha > K$ , it suffices to show that a model  $\theta$  is globally robust at some prior by the new definition if  $\theta$  admits a p-absorbing SCE. Without

loss of generality, take any  $\Theta' = \{\theta^1, \dots, \theta^K\} \subseteq \Theta$  and define for each  $k \in \{1, \dots, K\}$  a process  $\{S_t^k\}_t$  as follows,

$$S_t^k = \frac{\sum_{\omega' \in \Omega^{\theta^k}} \pi_0^{\theta^k}(\omega') \prod_{\tau=0}^t q^{\theta^k}(y_\tau | a_\tau, \omega')}{\prod_{\tau=0}^t q^*(y_\tau | a_\tau)}.$$

Then for any  $\eta \in (1, \alpha)$ , we have

$$\mathbb{P}_D(S_t^k \leq \eta, \forall t \geq 0) \geq 1 - \frac{\mathbb{E}^{\mathbb{P}_D} S_0^k}{\eta} = 1 - \frac{1}{\eta}.$$

Hence, when  $\eta$  is sufficiently close to  $\alpha$ ,

$$\begin{aligned} & \mathbb{P}_D(S_t^k \leq \eta, \forall t \geq 0, \forall k \in \{1, \dots, K\}) \\ & \geq 1 - \sum_{k=1}^K P_B(S_t^k > \eta \text{ for some } t \geq 0) \\ & \geq 1 - \frac{K}{\eta} > 0. \end{aligned}$$

The rest of the argument is identical to the proof in Section B.1. It follows that Theorem 1 also continues to hold when  $\alpha > K$ .

For  $\bar{\theta}$ -constrained local robustness, note that Inequality (13) implies

$$\begin{aligned} & \mathbb{P}_D \left( \frac{\sum_{\omega^k \in \Omega^{\theta^k}} \pi^{\theta^k}(\omega^k) \ell_t(q, \omega^k)}{\ell_t(\hat{q}, \omega^*)} \leq \pi^{\theta^k}(\Omega^\theta(\sigma)) + \pi^{\theta^k}(\iota(\Omega^\theta(\sigma)))\eta \right. \\ & \quad \left. + \pi^{\theta^k}(\iota(\Omega^\theta \setminus \Omega^\theta(\sigma)))\kappa, \forall t \geq 0, \forall k \in \{1, \dots, K\} \right) \\ & \geq 1 - \sum_{k=1}^K \mathbb{P}_D \left( \frac{\sum_{\omega^k \in \Omega^{\theta^k}} \pi^{\theta^k}(\omega^k) \ell_t(q, \omega^k)}{\ell_t(\hat{q}, \omega^*)} > \pi^{\theta^k}(\Omega^\theta(\sigma)) + \pi^{\theta^k}(\iota(\Omega^\theta(\sigma)))\eta \right. \\ & \quad \left. + \pi^{\theta^k}(\iota(\Omega^\theta \setminus \Omega^\theta(\sigma)))\kappa \text{ for some } t \geq 0 \right) \\ & \geq 1 - K \left( \frac{1}{\eta^d} + \frac{M}{\kappa^d} \right). \end{aligned}$$

If  $K < \alpha^d$ , then the term above is strictly positive when  $\eta$  is sufficiently close to  $\alpha$  and  $\kappa$  is sufficiently large. The rest of the proof is analogous to the proof in Section B.9.  $\square$

## B.11 Proof of Proposition 2

It suffices to show that the agent makes a switch to  $\hat{\theta}$  with positive probability. It then follows from Proposition 1 that  $\hat{\theta}$  is eventually adopted forever with positive probability.

Define a new probability measure  $\hat{\mathbb{P}}$  over the action and outcome histories  $H$  such that for any histories  $\hat{H} \subset H$ ,

$$\hat{\mathbb{P}}(\hat{H}) = \pi_0^{\hat{\theta}}(\omega^L) \mathbb{P}_S^{\hat{\theta}, \omega^L}(\hat{H}) + \pi_0^{\hat{\theta}}(\omega^R) \mathbb{P}_S^{\hat{\theta}, \omega^R}(\hat{H}),$$

where  $\mathbb{P}_S^{\hat{\theta}, \omega}$  is the probability measure over histories induced by the agent switcher if the true DGP is identical to the DGP prescribed by  $\hat{\theta}$  and  $\omega$ . Then  $\ell_t(\theta, \omega^M)/\ell_t(\hat{\theta})$  is a martingale w.r.t.  $\hat{\mathbb{P}}$  with an expectation of 1. Hence, for any  $\eta > 1$ , the probability that  $\ell_t(\theta, \omega^M)/\ell_t(\hat{\theta}) \leq \eta$  for all  $t$  is positive (measured by  $\hat{\mathbb{P}}$ ). Since  $a^M$  is the only SCE under model  $\theta$ , by Lemma 1 the agent almost surely eventually play  $a^M$  on the paths where the model choice eventually equals  $\theta$ . If so, the agent's posterior  $\pi_t^\theta$  almost surely converges to  $\delta_{\omega^M}$ . In summary, on paths where  $m_t$  eventually equals  $\theta$ , it happens with positive probability (measured by  $\hat{\mathbb{P}}$ ) that  $\ell_t(\theta, \omega^M)/\ell_t(\hat{\theta}) \leq \eta$  for all  $t$  and  $\pi_t^\theta \xrightarrow{\text{a.s.}} \delta_{\omega^M}$ . This then implies that for any  $\epsilon > 0$ , we can construct a finite sequence of outcome realizations  $(y_0, \dots, y_{t-1})$  such that  $\ell_t(\theta, \omega^M)/\ell_t(\hat{\theta}) \leq \eta$  for all  $t \leq T$  and  $\pi_T^\theta \in B_\epsilon(\delta_{\omega^M})$ . Moreover, since  $T$  is finite, this sequence of outcomes are also realized with positive probability under the true measure  $\mathbb{P}_S$ . Notice that

$$\frac{\ell_T(\hat{\theta})}{\ell_T(\theta)} = \pi_T^\theta(\omega^M) \frac{\ell_T(\hat{\theta})}{\pi_0^\theta(\omega^M) \ell_t(\theta, \omega^M)} \geq (1 - \epsilon) \frac{\eta}{\pi_0^\theta(\omega^M)},$$

where the right-hand side is strictly larger than  $\alpha$  when  $\pi_0^\theta(\omega^M) < 1/\alpha$  if  $\epsilon$  is close enough to 0 and  $\eta$  is close enough to 1. Therefore, the agent makes a switch from  $\theta$  to  $\hat{\theta}$  with positive probability.

## B.12 Proof of Proposition 3

Suppose the agent's action space contains  $K$  elements,  $a^1 < a^2 < \dots < a^K$ . Define function  $h : [\underline{\omega}, \bar{\omega}] \rightarrow [\underline{\omega}, \bar{\omega}]$ , such that  $h(\omega)$  returns the KL-minimizer evaluated at the largest myopically optimal action against the degenerate belief  $\delta_\omega$  i.e.  $h(\omega)$  minimizes  $D_{KL}(q^*(\cdot | \bar{a}(\omega)) \| q(\cdot | \bar{a}(\omega), \hat{b}, \omega))$  where  $\bar{a}(\omega) = \max A^\theta(\delta_\omega)$ . By Assumption 4, there exists an increasing sequence of intervals  $\{(\omega_k, \omega_{k+1})\}_{k=0}^K$  such that  $\omega_0 = \underline{\omega}$ ,  $\omega_K = \bar{\omega}$ ,  $a^k$  is the unique myopically optimal action over  $(\omega_{k-1}, \omega_k)$  and both  $a^{k-1}$  and  $a_k$  are myopically optimal at  $\omega_{k-1}$ . Function  $h$  is flat within each interval. If there exists a pure BN-E under model  $\theta$ , then it must be supported by a degenerate belief at  $\omega$  such that  $h(\omega) = \omega$ . By

Assumption 4, any pure BN-E must also be self-confirming, and any mixed BN-E cannot be self-confirming.

Suppose  $\hat{b} > b^*$ , then  $h$  jumps up discontinuously at all cutoffs  $\{\omega_k\}_{1 \leq k \leq K-1}$ . Suppose there exists no solution to  $h(\omega) = \omega$ . Then since  $h(\underline{\omega}) \geq \underline{\omega}$  and  $h(\bar{\omega}) \leq \bar{\omega}$ , we know that there must exist  $\hat{k}$  such that  $h(\omega) > \omega$  for all  $\omega \in (\omega_{k^*-1}, \omega_{k^*})$  and  $h(\omega') < \omega'$  for all  $\omega' \in (\omega_{k^*}, \omega_{k^*+1})$ . But this contradicts the observation that  $h$  jumps up at  $\omega_{k^*}$ . It also immediately follows that there exists a solution  $\hat{\omega}$  to  $h(\hat{\omega}) = \hat{\omega}$  such that  $h(\omega') > \omega'$  for  $\omega' < \hat{\omega}$  and  $h(\omega'') < \omega''$  for  $\omega'' > \hat{\omega}$ . Let  $\hat{a}$  be the unique myopically optimal action at  $\delta_{\hat{\omega}}$ . Then  $\hat{a}$  is a pure self-confirming equilibrium, supported by the generate belief at  $\hat{\omega}$ . By assumption 4,  $\omega \in \Omega^\theta$ , and thus  $\hat{a}$  is also a self-confirming equilibrium under  $\theta$ . Note that  $\hat{a}$  is uniformly strict. By Corollary 1, model  $\theta$  is globally robust.

Now suppose the agent is underconfident, then  $h$  jumps down discontinuously at the cutoffs  $\{\omega_k\}_{1 \leq k \leq K-1}$ . Hence, there exists at most one solution to  $h(\omega) = \omega$ . Suppose there exists a SCE  $\sigma^\dagger$  when the agent believes his ability is given by  $\tilde{b}$ . Then by the upper-hemicontinuity of  $A^\theta$ , when  $\hat{b}$  is lower than but sufficiently close to  $\tilde{b}$ , there exists some  $\hat{\omega} > \omega^*$  such that  $g(a^\dagger, \hat{b}, \hat{\omega}) = g(a^\dagger, b^*, \omega^*)$ , where  $a^\dagger = \max \text{supp}(\sigma^\dagger)$  and is the unique myopically optimal action against  $\delta_{\hat{\omega}}$ . It follows that  $a^\dagger$  is a uniformly strict SCE under  $\theta$ . Since there always exists a SCE when the agent is correctly specified, i.e.  $\tilde{b} = b^*$ , we infer that model  $\theta$  is globally robust when  $b^* - \hat{b}$  is sufficiently small.

Suppose instead that there is no solution to  $h(\omega) = \omega$  when the agent's self-perception is given by  $\hat{b}$ . If so, there exists no SCE under model  $\theta$ . By Theorem 1,  $\theta$  is not globally robust. By continuity,  $h(\omega) = h(\omega)$  also does not admit any solution at  $\tilde{b}$  if it is sufficiently close to  $\hat{b}$ . Therefore, there exists an open neighborhood around  $\hat{b}$  such that model  $\theta$  is not globally robust. I now show that  $\theta$  is not  $\bar{\theta}$ -constrained locally robust. Suppose  $\theta$  admits a mixed BN-E  $\hat{\sigma}$ , supported by a potentially mixed belief  $\hat{\pi}^\theta \in \Delta\Omega^\theta$ . Suppose  $\hat{\sigma}$  takes support over  $a^k$  and  $a^{k+1}$  (note that both  $\hat{\sigma}$  and  $\hat{\pi}^\theta$  have at most two elements in their support). Then for any  $\hat{\omega} \in \text{supp}(\pi^\theta)$ , we have

$$\hat{\omega} \in \arg \min_{\Omega^\theta} \sigma(a^k) D_{KL} (q^*(\cdot|a^k) \parallel q^\theta(\cdot|a^k, \omega')) + \sigma(a^{k+1}) D_{KL} (q^*(\cdot|a^{k+1}) \parallel q^\theta(\cdot|a^{k+1}, \omega')) .$$

Let  $\omega^k$  denote the KL-minimizer in  $[\underline{\omega}, \bar{\omega}]$  at  $a^k$  and  $\omega^{k+1}$  denote the KL-minimizer in  $[\underline{\omega}, \bar{\omega}]$  at  $a^{k+1}$ . Since  $g(a, \hat{b}, \omega) - g(a, b^*, \omega^*)$  is strictly increasing in  $a$  when  $\hat{b} < b^*$  and  $\omega > \omega^*$ , we know that  $\omega^k > \omega^{k+1}$ . Since  $\omega^k, \omega^{k+1} \in \Omega^\theta$  by assumption, we have  $\text{supp}(\hat{\pi}^\theta) \subseteq [\omega^{k+1}, \omega^k]$ .

Hence, for all  $\hat{\omega} \in \text{supp}(\hat{\pi}^\theta)$ ,

$$\begin{aligned} g(a^k, \hat{b}, \hat{\omega}) - g(a^k, b^*, \omega^*) &\leq 0 \\ g(a^{k+1}, \hat{b}, \hat{\omega}) - g(a^{k+1}, b^*, \omega^*) &\geq 0, \end{aligned}$$

with at least one inequality being strict. Suppose the second inequality is strict. Pick  $\tilde{b} \in (\hat{b}, b^*]$  and define  $\tilde{\omega}$  by  $g(a^k, \hat{b}, \hat{\omega}) = g(a^k, \tilde{b}, \tilde{\omega})$ . Similarly, since  $g(a, \hat{b}, \omega) - g(a, \tilde{b}, \tilde{\omega})$  is strictly increasing in  $a$ , we know that  $g(a^{k+1}, \hat{b}, \hat{\omega}) > g(a^{k+1}, \tilde{b}, \tilde{\omega})$ ; analogously  $g(a^{k+1}, \hat{b}, \hat{\omega}) - g(a^{k+1}, b^*, \omega^*) \geq 0$ . Therefore, the  $\hat{\sigma}$ -weighted KL divergence is smaller at  $(\tilde{b}, \tilde{\omega})$  than at  $(\hat{b}, \hat{\omega})$ . When  $\tilde{b}$  is sufficiently close to  $\hat{b}$ , the parameter pair  $(\tilde{b}, \tilde{\omega})$  is also close to  $(\hat{b}, \hat{\omega})$ . Since the agent's action frequency converges, by Theorem 3, model  $\theta$  is not  $\bar{\theta}$ -constrained locally robust at  $\hat{b}$ . Moreover, for any  $\tilde{b} \in (\hat{b}, b^*]$ , there exists a competing model  $\theta'$  with  $(\tilde{b}, \tilde{\omega}) \in \Omega^{\bar{\theta}}$  such that  $\theta$  does not persist against  $\theta'$ .

Similarly, model  $\theta$  is not  $\bar{\theta}$ -constrained locally robust if we perturb the value of  $\hat{b}$ . Combining this with the previous observation, we could find a sequence of intervals such that model  $\theta$  is either globally robust or not  $\bar{\theta}$ -constrained locally robust, each occurring within disjoint intervals.  $\square$

## C Supplemental Appendix

### C.1 Examples Omitted from Section 3

**Example 5** (A p-absorbing mixed SCE). Consider a dogmatic modeler's problem, where there are two actions  $\mathcal{A} = \{1, 2\}$  and three parameters  $\Omega^\theta = \{1, 1.5, 2\}$  inside the parameter space of model  $\theta$ . The agent's payoff is simply the outcome  $y_t$ , with the true DGP being the normal distribution  $N(0.25, 1)$  for all actions. Model  $\theta$  is misspecified, predicting that  $y_t \sim N((\omega - a_t)^2, 1)$ . Note that every mixed action is a self-confirming equilibrium, with the supporting belief assigning probability 1 to the parameter value of 1.5. Here, every mixed SCE is p-absorbing since its support contains every action that can be played by the agent. But her action sequence may never converge. To see that, notice that a belief that assigns larger probability to  $\omega = 1$  than  $\omega = 2$  leads to action  $a = 2$ , but such play in turn induces her to attach lower probability to  $\omega = 1$  than  $\omega = 2$  and leads to action  $a = 1$ . Nevertheless, Corollary 1 tells us that the aforementioned SCE is indeed p-absorbing.

**Example 6** (A self-confirming equilibrium that fails to be p-absorbing). Consider a dogmatic modeler's problem, where there are two actions  $\mathcal{A} = \{1, 3\}$  and three parameters  $\Omega^\theta = \{1, 2, 3\}$  inside the parameter space of model  $\theta$ . The agent's payoff is the absolute value

of the outcome,  $|y_t|$ , with the true DGP of  $y_t$  given by a normal distribution  $N(1, 1)$  for all actions. Consider a misspecified model  $\theta$  that predicts  $y_t \sim N(\omega - a_t, 1)$ . Note that  $\theta$  admits a single self-confirming equilibrium in which the agent plays  $a^* = 1$  with probability 1, supported by a belief that assigns probability 1 to  $\omega^* = 2$ . However, this SCE is not p-absorbing. To see that, notice that the agent is indifferent between the two actions when the parameter takes the value of 2. When the agent keeps playing  $a = 1$ , the parameters 1 and 3 fit the data equally well on average, so their log-posterior ratio is a random walk which a.s. crosses 1 infinitely often. However, the high action  $a = 3$  is strictly optimal against any belief that assigns a higher probability to  $\omega = 1$  than  $\omega = 3$ . Hence, the high action must be played infinitely often almost surely.

## C.2 Micro-Foundation for Application 5.1

In this subsection I specify the payoff structure for the news consumption problem in Application 5.1, which provides a micro-foundation for Assumption 3.

To do this, we first extend the learning framework introduced in Section 2 to allow for an unobserved payoff that may depend on an unknown state. That is, besides the observable payoff jointly determined by the action and the random outcome  $u(a_t, y_t)$ , there may exist an unobserved payoff  $\tilde{u}(a_t, \omega)$  that depends on the action and a fundamental state  $\omega \in \Omega$ . Under any subjective model  $\theta$ , the agent maximizes the sum of the observed and the unobserved payoff given her belief over the fundamental state and possibly other parameters. This maximization gives rise to an optimal-action correspondence  $A_m^\theta : \Delta\Omega^\theta \rightrightarrows \mathcal{A}$ , which we can use to define a self-confirming equilibrium. All results in Section 3 remain unchanged.

Subscribing to media outlets provide entertainment value. Media outlets produce higher quality news reports if the story is aligned with their political leaning. If the agent subscribes to media  $a^L$ , she earns an emotional utility of 1 iff she receives a  $l$  story; similarly, if she subscribes to media  $a^R$ , she earns an emotional utility of 1 iff she receives a  $r$  story. If she subscribes to the neutral media  $a^M$ , she earns a constant emotional payoff of 0.65.

Subscribing to media outlets also provide valuable information. In addition to subscribing to a media outlet  $a_t$ , the agent takes an outside action  $v_t \in \{v^L, v^M, v^R\}$  upon receiving the story  $y_t$ . The agent earns a payoff of 1 if she takes  $v^L$  in state  $\omega^L$  and  $v^R$  in state  $\omega^R$ , but in state  $\omega^M$  she earns a constant payoff of 0.5 by taking any action. Note that it is optimal for the agent to follow the story she receives in each period.

In Table C.2, I summarize the expected total payoffs associated with each action under model  $\theta$  and model  $\theta'$ . It is then straightforward to verify Assumption 3.

$E^\theta(\text{payoff} a, \omega)$	$\omega^L$	$\omega^M$	$\omega^R$	$E^{\hat{\theta}}(\text{payoff} a, \omega)$	$\omega^L$	$\omega^R$
$a^L$	1.4	1.1	1	$a^L$	1.2	1
$a^M$	1.25	1.15	1.25	$a^M$	1.15	1.15
$a^R$	1	1.1	1.4	$a^R$	1	1.2

Table 5: Expected payoffs under model  $\theta$  (left) and expected payoffs under model  $\theta'$  (right).

### C.3 Examples Omitted from Section 6

I provide two examples below to substantiate the observation in Footnote 32. Example 7 presents a scenario in which  $\theta$  persists against  $\theta^1$  and  $\theta^2$  separately but does not persist against  $\{\theta^1, \theta^2\}$ , while Example 8 shows an opposite scenario.

**Example 7.** Let  $x^1$  and  $x^2$  be two i.i.d. normally distributed variables, both with mean 0 and variance 1. Suppose  $x^3$  and  $x^4$  are also i.i.d. normally distributed but with mean 1 and variance 1. Suppose the agent can play one of two actions in each period,  $\mathcal{A} = \{1, 2\}$  and uses subjective models to learn about the mean of each element in  $(x^1, x^2, x^3, x^4)$ . Her flow payoff is given by  $a \cdot (x^4 - x^3)$ . Hence, she would like to play  $a = 2$  if  $\bar{x}^4 > \bar{x}^3$  and play  $a = 1$  if  $\bar{x}^3 > \bar{x}^4$ . However,  $x^1$  and  $x^3$  are only observable when  $a = 1$ , while  $x^2$  and  $x^4$  are only observable when  $a = 2$ . That is, the outcome  $y$  is given by  $(x^1, x^3)$  when  $a = 1$  and given by  $(x^2, x^4)$  when  $a = 2$ . She entertains an initial model  $\theta$  and two competing models,  $\{\theta^1, \theta^2\}$ , each of which is equipped with a binary parameter space. The predictions of each model are summarized by the following table. The predicted means are independent of the actions taken.

$\theta$	$\omega^1$	$\omega^2$
$(\bar{x}^1, \bar{x}^2, \bar{x}^3, \bar{x}^4)$	$(1, 1, 1, 0)$	$(1, 1, 0, 1)$
$\theta^1$	$\omega^{1'}$	$\omega^{2'}$
$(\bar{x}^1, \bar{x}^2, \bar{x}^3, \bar{x}^4)$	$(1, 0, 1, 0)$	$(1, 0, 0, 1)$
$\theta^2$	$\omega^{1''}$	$\omega^{2''}$
$(\bar{x}^1, \bar{x}^2, \bar{x}^3, \bar{x}^4)$	$(0, 1, 1, 0)$	$(0, 1, 0, 1)$

Notice that there are two strict (and thus p-absorbing) Berk-Nash equilibria under  $\theta$ : (1)  $a = 1$  is played w.p. 1, supported by the belief that assigns probability 1 to  $\omega^1$ ; (2)  $a = 2$  is played w.p. 1, supported by the belief that assigns probability 1 to  $\omega^2$ . First observe that  $\theta$  persists against  $\theta^1$  at a prior  $\pi_0^\theta$  that assigns sufficiently high belief to  $\omega^1$ . This follows from the fact that the likelihood ratio between  $\theta$  and  $\theta^1$  is always 1 when  $a = 1$  is played, and that the equilibrium is p-absorbing. Analogously,  $\theta$  persists against  $\theta^2$  at a prior  $\pi_0^\theta$  that

assigns sufficiently high belief to  $\omega^2$ . However, notice that  $\theta$  does not persist against  $\{\theta^1, \theta^2\}$  at any priors and policies, because regardless of the actions taken by the agent, at least one of  $\theta^1$  and  $\theta^2$  would fit the data strictly better than  $\theta$ , prompting the agent to adopt  $\theta^1$  and  $\theta^2$  infinitely often.

**Example 8.** Let  $y$  be a normally distributed variable with mean 0 and variance 1, whose distribution is independent of actions. The agent can play one of two actions in each period,  $\mathcal{A} = \{1, 2\}$  and uses subjective models to learn about the mean of  $y$ . Her flow payoff is given by  $a \cdot y$ . She entertains an initial model  $\theta$  and two competing models,  $\{\theta^1, \theta^2\}$ . Model  $\theta^1$  has a single parameter and perfectly matches the true DGP, while models  $\theta$  and  $\theta^2$  both have a binary parameter space. The predictions about  $\bar{y}$  of each model are summarized by the following table.

$\theta$	$\omega^1$	$\omega^2$	$\theta^1$	$\omega'$	$\theta^2$	$\omega''$
$a^1$	-1	1	$a^1, a^2$	-1	$a^1, a^2$	2
$a^2$	-2	1				

Suppose the agent's prior satisfies that  $\pi_0^\theta(\omega^1) = 1 - \pi_0^\theta(\omega^0) = \frac{0.5}{\alpha} < \frac{1}{\alpha}$ . First consider what happens when the agent has only one competing model,  $\theta^1$ . By the Law of Large Numbers, the likelihood ratio between  $\theta^1$  and  $\theta$  eventually exceeds  $\alpha$  almost surely because

$$\begin{aligned}
\frac{\ell_t(\theta^1)}{\ell_t(\theta)} &= \frac{\prod_{\tau=0}^{t-1} q^{\theta^1}(y_\tau | a_\tau, \omega')}{\prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega^1) \pi_0^\theta(\omega^1) + \prod_{\tau=0}^{t-1} q^\theta(y_\tau | a_\tau, \omega^2) \pi_0^\theta(\omega^2)} \\
&= \frac{\prod_{\tau=0}^{t-1} q^*(y_\tau | a_\tau)}{\prod_{\tau=0}^{t-1} \mathbf{1}_{(a_\tau=a^1)} q^*(y_\tau | a_\tau) \pi_0^\theta(\omega^1) + \xi(h_t)} \\
&\geq \frac{\prod_{\tau=0}^{t-1} q^*(y_\tau | a_\tau)}{\prod_{\tau=0}^{t-1} \frac{1}{\alpha} q^*(y_\tau | a_\tau) + \xi(h_t)}
\end{aligned}$$

where  $\frac{\xi(h_t)}{\prod_{\tau=0}^{t-1} q^*(y_\tau | a_\tau)}$  converges to 0 almost surely. Therefore,  $\theta$  does not persist against  $\theta^1$  under prior  $\pi_0^\theta$ .

However, model  $\theta$  persists against  $\Theta' := \{\theta^1, \theta^2\}$  at prior  $\pi_0^\theta$ . First notice that for any  $a_0 \in \mathcal{A}$ , there exists some  $y_0$  sufficiently large such that

$$\ell_1(\theta^2) > \alpha \cdot \max\{\ell_1(\theta), \ell_1(\theta^1)\}$$

and thus the agent switches to  $\theta^2$  in the beginning of period 1. As a result, the agent plays  $a_1 = a^2$  in period 1 since it is the strictly dominant strategy under  $\theta^2$ . But then we could



find some sufficiently small  $y_1$  such that the following two inequalities hold:

$$\ell_2(\theta) > \alpha \cdot \max\{\ell_2(\theta^1), \ell_2(\theta^2)\},$$

$$\pi_2^\theta(\omega^1) = \frac{\pi_0^\theta(\omega^1)q^\theta(y_0|a_0, \omega^1)q^\theta(y_1|a_1, \omega^1)}{\sum_{\omega \in \{\omega^1, \omega^2\}} \pi_0^\theta(\omega)q^\theta(y_0|a_0, \omega)q^\theta(y_1|a_1, \omega)} > \max\{\frac{1}{\alpha}, c\},$$

where  $c$  is chosen such that while adopting  $\theta^1$ , the agent finds  $a^1$  payoff-maximizing if her belief assigns a probability higher than  $c$  to  $\omega^1$ , i.e.  $\pi^\theta(\omega^1) > c$ . The first inequality implies that the agent switches back to  $\theta$  in the beginning of period 2. The second inequality, together with the observation that the pure strategy  $a^1$  is a uniformly strict self-confirming equilibrium supported by the belief that assigns probability 1 to  $\omega^1$ , ensures that with positive probability, the agent plays action  $a^1$  forever, provided that her decisions are made based on model  $\theta$ . But notice that on those paths, the agent indeed no longer switches to other models after period 1 because for  $t > 2$ ,

$$\frac{\ell_t(\theta^1)}{\ell_t(\theta)} < \frac{\ell_2(\theta^1)}{\ell_2(\theta)} \frac{\prod_{\tau=2}^{t-1} q^*(y_\tau|a_\tau)}{\prod_{\tau=2}^{t-1} q^*(y_\tau|a_\tau) \pi_2^\theta(\omega^1)} < 1 < \alpha.$$

Since outcomes  $y_0$  and  $y_1$  that satisfy the aforementioned properties are drawn with positive probability, we conclude that  $\theta$  persists against  $\Theta^c := \{\theta^1, \theta^2\}$  at prior  $\pi_0^\theta$ .