

Imperfect	information	abounds	in	economics	(and	real life)
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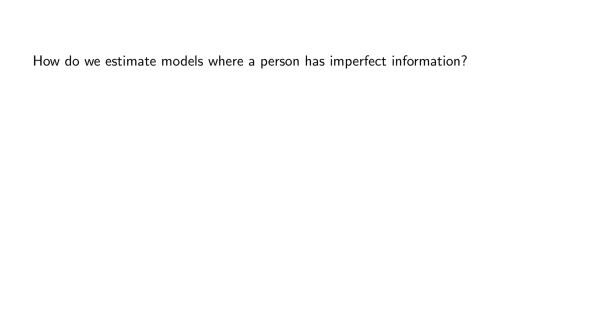
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- How do we know we didn't just happen to get their best dish on a good night?



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- People can't see the future
- Instead, have expectations about their future states and preference shocks
- ullet We compute individuals' expectations according to the  ${\mathbb E} \max$  formula
- $\bullet$  For tractability, we impose a strong assumption on the distribution of  $\epsilon$

Consider a setting where an agent is trying to learn about something, call it $a_i$

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- This process repeats itself in each period where  $S_{it}$  is received

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Then we can decompose the variance of the signal  $S_{it}$ 

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This ratio measures the quality of the signal (bigger is better)

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This is used in common formulas for updating beliefs