

Can Case-Based Decision Makers Survive in a Financial Market?

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The paper explores whether case-based decision makers (CBDM) can survive in an asset market and influence asset prices in the presence of expected utility maximizers. Conditions are identified, under which the CBDM retain a positive mass with probability one. CBDM can cause predictability of asset returns, high volatility and bubbles. It is found that the expected utility maximizers can disappear from the market for a finite period of time, if the mispricing of the risky asset caused by the CBDM aggravates too much. Only expected utility maximizers with a logarithmic utility function are able to drive the CBDM out of the market for all parameter values.