

Referee Report on “A Simple Note on Informational Cascades” by Annamaria Fiore and Andrea Morone

The paper “A Simple Note on Informational Cascades” addresses the relevant question whether destroying information on the first stages of a sequential decision making process improves the quality of decisions in later stages and thus enhances overall welfare. The authors modify the rational cascades model of Bikchandani, Hirshleifer and Welch (1992) by incorporating their idea of hiding the decisions of predecessors for the first k out of N players. Using the modified model, the authors compute the probability of the occurrence of a correct cascade under different parameter choices, and compare their results with the results of the original model. Further, the authors run an experiment in order to investigate whether the differences in the models are reflected by the behavior of real subjects.

Comment on the analysis:

The analysis of the experimental data seems correct, but there are several critical points to make:

1. The experimental results of the paper rely on the decisions of 10 subjects per treatment, and all 10 subjects per treatment interact with each other each round. The differences concerning the results in the two treatments need to be confirmed with more data.
2. Table 2 on page 11 is not well explained. It remains unclear what the numbers beneath “whose cascade” mean and how the differences in the numbers can be explained.
3. Authors state on page 12 that “cascade behavior is rather fragile [...], and that often they also choose to play against their own signal”. Here, a more detailed analysis would be appropriate, including a comparison with behavior of subjects in other cascade experiments.
4. The term “ex-ante”-earnings is somewhat misleading, as it does not refer to the expected earnings, but to the expected earnings given the actual signal realizations.
5. The ex-ante-earnings in position 1 should be (almost) equal in T1 and T2; however, the difference is pretty big, as can be inferred from table 3. Chance seems to play a major role here, and is potentially driving the results. It is not clear, whether the different results of the treatments are due to systematic differences in behavior or to chance. This can also be seen in figure 1. The starting points at position 1 are expected to be equal in both treatments, however, they are not. Maybe one should use the same signals in both treatments, or increase the number of independent observations in order to mitigate the influence of single signals.

6. At later stages in the cascade, the winning percentages in the two treatments become very similar (see figure 1). This is surprising, in particular as there are more wrong cascades in T1 than in T2. Authors do not elaborate on this fact.
7. In the econometric analysis authors run a probit estimation, assuming independent observations. However, all 100 observations per treatment stem from the same 10 subjects. Furthermore, the subjects interact with each other in each round. Thus, the assumption of independence is not appropriate and might lead to incorrect conclusions. An econometric method that accounts for dependence might also eliminate the very peculiar result of a significantly negative impact of correctwon.
8. The treatment dummy T2 should have a different impact, depending on which stages are considered. In the first 4 stages the impact should be negative; in later stages it should be positive. Thus, not accounting for the different stages confounds the effect.

General remark:

The paper contains many grammatical mistakes and typing errors (e.g. on page 12 “is” is missing in the second sentence or on page 18 “c” is missing in “acknowledgements”). This considerably hinders the comprehension of arguments and results. Thus, the paper should be carefully rewritten.