

Abstract of a paper to be presented at the  
**11<sup>th</sup> Berlin IO Day**, on March 15<sup>th</sup>, 2019:

## **Cursed Beliefs in Search Markets**

Tobias Gamp, Humboldt-Universität zu Berlin (with Daniel Krähmer)

We study a search market in the spirit of Diamond (1971) in which some consumers have cursedly misspecified beliefs about what the market supplies. We show that, in equilibrium, this leads to that cursed consumers have unrealistic high expectations about what the market supplies so that they engage in excessive search. This enhances competition and benefits all consumers. However, if cursed consumers are too cursed, then they incur large welfare losses, because they never stop searching for the "golden egg" which they falsely believe to exist. As a consequence, an intermediate level of cursedness maximizes their welfare. An intermediate level of cursedness also maximizes the welfare of standard consumers in the market, because only then a novel type of equilibrium emerges in which firms offer penny sales in order to meet the unreasonable high expectations of cursed consumers.