

Mental capabilities, heterogenous trading patterns and performance in an expertimental market

Abstract:

We develop a framework of mental capabilities and economic behavior, and apply it to an asset market setting. The model predicts heterogeneous trading behavior as a consequence of two distinct mental capabilities: analytical skills and mentalizing, where the former involves quantitative, objective aspects of a decision problem, and the latter an assessment of others' behavior and intentions. Individual differences in these capabilities induce specific trading patterns and performances, despite symmetric information of all decision-makers. The most successful traders are strong in both capabilities, while the general relation between success and mental capabilities is non-monotone, with the mentalizing capability being responsible for the highest gains and highest losses, respectively. The experimental data supports the theoretical predictions.