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Belief Attitude and Belief Updating

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Abstract

Despite the importance of risk attitude on decision making, its role on belief updating has been overlooked. In this paper, we aim to answer this fundamental question. We show, using economic theory, that stronger risk aversion drives more conservative actions, decreases the instrumental value of information relative to the importance of belief-based utility. Thus, with utility for clarity, stronger risk attitude yields to more belief change; whereas with updating cost, stronger risk attitude leads to less belief change. We confirm the result experimentally in two settings where subjects update their belief about their IQ and a randomly drawn number, respectively.