

The Distortion of Related Beliefs*

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Abstract

When forming beliefs about themselves and the world, people often face a tension between conclusions they inherently wish to reach and those which are objectively reasonable. And the objective likelihood of beliefs about one variable (e.g., the performance of a favored politician) depend on beliefs about other, related variables (e.g., the quality and bias of newspapers reporting on the politician). The approach introduced in this paper combines these two forces, creating a tractable way to study the distortion of related beliefs. Doing so provides a unified framework to formalize several central ideas from psychology (e.g., motivated reasoning, attribution) which have been applied heavily to political science and economics. The model also provides new insights into why successful individuals sometimes attribute their performance to luck (“imposter syndrome”), why those from advantaged groups believe they in fact face high levels of discrimination (the “persecution complex”), and why those with different political preferences disagree about the accuracy and bias of news sources.

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This paper introduces a formal approach to model how people distort beliefs about themselves and the world around them. The central premise draws on a canonical distinction from social psychology between reasoning motivated by accuracy versus the aim to reach a certain conclusion (Kruglanski, 1980; Kunda, 1990). Rather than treating belief formation as following one motivation or the other, I propose a model which includes both accuracy and directional motives, allowing us to study the tradeoffs between these goals.

The framework proves particularly powerful for analyzing belief formation over multiple variables which are *related*. Take a simple example. A newspaper reports that a politician has abused her office for private gain. A reader who likes the politician could update his beliefs about several factors. One natural factor to learn about is *how good of a job is the politician doing?* Another possibility to update on is *does this newspaper exhibit bias against the politician's party?* These updates are linked: if the politician really is corrupt there is no reason to think the newspaper is biased, and if the newspaper is biased one could conclude the accusations are spurious. Put another way, conditional on reading a critical article, beliefs about the performance of the politician and bias of the newspaper become positively correlated: higher beliefs about bias make higher beliefs about performance more plausibly, and vice versa. If the reader wants to continue believing the politician is doing a good job, he may conclude that the newspaper is biased. Put another way, he may form an “incorrect” belief about the quality of the news source even if (1) this is not a facet of the world he intrinsically cares about, and (2) doing so may lead to further incorrect conclusions about other information provided by the news source.

I call this phenomenon *the distortion of related beliefs*. Some of our beliefs – perhaps a small fraction – are intrinsically important enough that we want to reach a certain conclusion about their value. We want to believe that we are capable and decent, that our friends and favored relatives share these traits, and that the groups we belong to are on the right side of conflicts. A much wider set of beliefs are related to those we care about, such as the accuracy of every test we have taken,

whether scientific evidence backs our favored party's policy positions, or the veracity of a nasty rumor about a close friend.

To form a coherent and plausible view of the world writ large, we may distort the *auxiliary beliefs* which we do not intrinsically care about if they are related to a core belief over which we do have a desired conclusion. To formalize this claim, I propose a general model of belief formation that supposes people face an accuracy motive for all of their beliefs, but directional motives only apply to core beliefs.

To demonstrate the value of this approach, the bulk of the paper applies it to several concrete problems. In each, an agent observes a signal which is driven by one factor he does intrinsically care about, and factors he does not intrinsically care about. I use two main interpretations throughout. First, to connect with many seminal ideas and results from social psychology, the signal can represent a test of the agent's own ability. Second, to illustrate the value for political applications (in addition to those which flow from the first interpretation), the signal can represent a news article or other source of information about the performance of a politician. To avoid juggling too much in the introduction, I primarily describe the models in terms of the first application, and then highlight the implications for politics.

In the first model, the signal is only a function of the agent's ability and an error term ("luck"). Each signal is associated with a Bayesian posterior belief about his ability. If this Bayesian belief is lower than the agent would like, he can respond by upwardly distorting his self-assessment of ability, albeit at a cost to the plausibility of the view he settles on. As a byproduct of this distortion, he also concludes that he was less lucky than a neutral observer would think. Conversely, if the agent does not want his self-assessment of ability to be too high but is very successful, he may believe that he just got lucky as a means to distort his belief down to a more comfortable level. The latter possibility provides an explanation for the "imposter syndrome" phenomenon common among successful people (Clance and Imes, 1978).

Next, suppose success is also affected by the level of discrimination faced by the agent. So, he

now forms a joint inference about both his ability and the degree of discrimination faced by people like him (in addition to luck). Importantly, the Bayesian posterior beliefs about ability and discrimination are positively correlated: for a fixed level of success, those facing more discrimination are generally higher ability. So, even if the agent does not intrinsically care about his conclusion about how much discrimination he faces (i.e., it is auxiliary), this belief will get distorted as well when he distorts the belief about his ability. This provides an explanation for why members of objectively advantaged groups can develop a “persecution complex,” believing they are the true victims of discrimination. In the political context, this model highlights how those with different directional motives will reach different conclusions about the bias of news sources, consistent with large empirical literature on the “hostile media” phenomenon (Vallone, Ross and Lepper, 1985). Their conclusions will become particularly distorted when (1) the agent has a strong directional motive about the performance of the politician, and (2) the beliefs about the quality of the politician and the bias of the newspaper are closely related, e.g., if the source has published a lot of negative coverage.

Finally, suppose the agent is also uncertain about the degree to which success is driven by ability or other factors. Those who perform well tend to believe the outcome was primarily driven by their ability (or hard work). Those who do less well are tempted to conclude the test was not accurate. However, all face a general tendency to explain their own performance (but less so that of others) to outside factors, as this leads to a more pliable belief about ability. That is, many core ideas and empirical results about attribution arise naturally from this setup (e.g., Kelley, 1967; Ross, 1977; Kunda, 1987). The payoff of the dual interpretations here is to suggest a political analog of the fundamental attribution error: the strongest partisans (and politicians themselves) tend to be skeptical about the accuracy of all “neutral” media, and may place more trust in news sources which are in fact inaccurate.

The primary aim of the paper is synthetic. Many “non-rational” ideas about belief formation from psychology which have been applied heavily to political science and economics arise natu-

rally when cast as a “quasi-Bayesian” maximization problem. A secondary contribution – which hints and the potential fruits of this approach – is that along the way several new takes on classic empirical results as well as new empirical predictions arise. In addition, the models in sections 3 and 4 are (to my knowledge) the first formal theories of imposter syndrome and persecution complexes.

The rest of the paper is organized as follows. Section 1 describes related work, and section 2 introduces the general modeling approach. Sections 3-5 present the applications which make up the core of the paper. Section 6 summarizes and makes suggestions for future work.

1 Related Models

This section briefly describes related formal models of non-standard belief formation; discussion of empirical work on the particular applications (e.g., motivated reasoning, discrimination, partisan interpretation of facts, attribution) is deferred until the framework is employed in that area.

Several formal models in economics and political science explore potential causes or implications of non-Bayesian (or at least not-fully Bayesian) formation of beliefs (e.g., Rabin and Schrag, 1999; Minozzi, 2013; Levy and Razin, 2015; Ortoleva and Snowberg, 2015; Cheng and Hsiaw, 2017). In some of this work, agents trade off material gains to hold more “pleasant” beliefs: that their job is not dangerous (Akerlof and Dickens, 1982), their investments are likely to pay off (Brunnermeier and Parker, 2005), or that their accomplishments stack up well compared to others (Penn, 2017).¹

Forming incorrect beliefs about ones’ ability (Bénabou and Tirole, 2002),² valuation of goods

¹These tradeoffs also resemble models of attitude formation (Acharya, Blackwell and Sen, 2018) and responses to survey questions Bullock et al. (2015).

²On beliefs about one’s ability or knowledge, Ortoleva and Snowberg (2015) and Levy and Razin (2015) show how voters can become overconfident if they neglect the correlation between their information sources. However, these papers are mostly concerned with *over-precision* of beliefs rather than a self-assessment of how good one is.

(Heifetz and Segev, 2004), or cost of fighting (Little and Zeitzoff, 2017), can lead to *higher* material payoffs by solving time-inconsistency or commitment problems.³

Another idea which plays a key role here and shows up in past work is the notion that people only store summary information about variables in memory (Mullainathan, 2002; Fryer Jr, Harms and Jackson, 2013). These papers also generally focus on the downstream implications of this kind of information processing, while here the summary statistic formed (the “conclusion”) takes center stage.⁴

The basic innovation here is to introduce a general approach which captures the tradeoff between reaching an (arbitrary) desired conclusion which is still relatively likely in the Bayesian posterior. More importantly, by treating the tradeoff between accuracy and directional motives in a simple and reduced-form manner, the approach here allows for a tractable treatment of how distortions of beliefs about one variable affect distortions of beliefs about other variables. That is, rather than treating belief distortions about different facets of the world individually, the framework proposed here allows us to model how any belief can become distorted.

2 General Framework

Here is a general model for how people form conclusions about themselves and other aspects of the world. Let $\theta = (\theta_1, \dots, \theta_n) \in \Theta \subseteq \mathbb{R}^n$ be a vector of random variables which an agent forms a conclusion about. The agent observes a set of signals $s = (s_1, \dots, s_m) \in S \subseteq \mathbb{R}^m$, which provide information about θ . In the applications here, the signal will be unidimensional and correspond to success at a task (including a politician’s performance in office).

The variables θ and s are drawn from a prior joint probability distribution $f(\theta, s)$. An actor in

³See also Lipnowski and Mathevet (2017), who study agents who intrinsically prefer to hold some beliefs (and what information they would like to receive as a result), but form their beliefs in a standard Bayesian fashion.

⁴Another recent paper which focuses on belief distortion by itself is Cheng and Hsiaw (2017), who show that not correctly doing joint updates on the credibility of information sources and the state they report on can lead to disagreement even among those seeing the same information (in a different order).

a standard model would form a conditional posterior belief about θ after observing s using Bayes' rule, write this $f_{\theta|s}(\theta|s)$.

Two problems may arise for the Bayesian. First, this posterior belief may be a complicated object. Even when imposing a strong structure like joint normality, he must keep track of n means, n variances, and $n(n - 1)/2$ covariances. Second, this posterior distribution may place heavy weight on beliefs which he finds unpleasant: that he is low ability, that his favored political party has governed poorly, or that someone close to him has behaved improperly.

To reduce these problems, suppose the agent then forms a “conclusion”, or best guess about the state variable θ . In doing so, he faces two motivations, which I label with the terminology from Kunda (1990). First, he would like this conclusion to be *accurate*. A natural way to model this is to assume he prefers picking conclusions which receive a relatively high likelihood or density in the Bayesian posterior. Second, he may have a directional motive to reach certain conclusions.

Formally, an *optimal conclusion* $\tilde{\theta}$ is a solution to:

$$\tilde{\theta} \in \arg \max_{\theta} a(f_{\theta|s}(\theta|s)) + v(\theta). \quad (1)$$

The $a(f_{\theta|s}(\theta|s))$ term represents the accuracy motive, where $a : \mathbb{R}^+ \mapsto \mathbb{R}$ is a strictly increasing function.⁵ The second term represents the intrinsic value for holding conclusion θ , where depending on the context several assumptions about the v term may be natural. The models here take this value function as exogenous, though section 6 contains discussion of applications which would microfound the v function.

An agent who cares only about accuracy is a special case of the model where the v term drops out (or is constant in θ). Such an agent picks a conclusion at the mode of the posterior distribution. So, a formal definition of the *distortion* of a conclusion is how far it lies from what one with no directional motive would conclude:

⁵Of course one could not explicitly model the signal process, and just write the Bayesian density of the joint distribution at the time of the conclusion as $f(\theta)$, and hence the accuracy term as $a(f(\theta))$.

Definition The *distortion* of conclusion θ is:⁶

$$d(\theta) = \theta - \arg \max_{\theta} f_{\theta|s}(\theta|s)$$

At the other extreme, an agent who only cares about the directional motive is a special case where the a term drops out or is constant, and simply picks the value of θ which maximizes v independent of the signal he receives. Here I primarily focus on the more interesting case where both motives matter.

Comments on the setup As with any formal model of belief formation or decision-making, we need not believe people literally think through this optimization problem when forming conclusions about the world. One interpretation of the optimization problem is that at the moment of forming a conclusion, the agent does think carefully through what the Bayesian belief would be, then only holds onto the conclusion as a summary for later use.⁷

Alternatively, a frequent defense of assuming people form beliefs by Bayes' rule is that if the deviations in doing so are random (with mean zero) then they will cancel out in a large population. Of course, substantial empirical evidence indicates that modest and even major departures from this ideal are common and systematic (see Rabin, 1998, for an overview). The notion of forming a conclusion used here generalizes this argument by allowing deviations for Bayesian beliefs to be biased in a predictable direction; in particular, towards beliefs that individuals want to hold for reasons outside of plausibility.⁸ More generally, the optimization problem as specified here

⁶If $f_{\theta|s}(\theta|s)$ is multi-modal then there are multiple potential ways to define the distortion, an issue which will not arise in any of the applications here.

⁷See (Mullainathan, 2002; Fryer Jr, Harms and Jackson, 2013) for further discussion of this idea in other models of memory.

⁸Another approach (which could prove useful when modeling decisions made using distorted beliefs) would be to assume the agent still keeps track of a full probability distribution, but place stronger weight on preferred values of θ . For example, the maximization problem could be to pick the posterior density $g(\theta)$ which maximizes an objective function like $\int_{\theta} v(\theta)g(\theta)d\theta - d(f_{\theta|s}(\theta|s), g(\theta))$, where v again captures the notion that some beliefs are more pleasant to hold, and d is a distance metric which penalizes deviations from the Bayesian density. Here I stick with the choice of a single conclusion for clarity and tractability.

serves as first approximation for any process of belief formation where both accuracy and some directional motive are at play.

Core and auxiliary beliefs Many results hinge on a distinction between beliefs that “matter” in the v function. Formally:

Definition θ_i is an *auxiliary variable* if v is constant in θ_i . θ_i is a *core variable* if it is not an auxiliary variable.

I refer to beliefs or conclusions about core (resp. auxiliary) variables as core (resp. auxiliary) beliefs or conclusions.

General characteristics of optimal conclusions An immediate consequence of the core/auxiliary definition is that the conclusion about auxiliary variable θ_i will always be the value that maximizes $f_{\theta|s}(\theta_i, \tilde{\theta}_{-i}|s)$. That is, the most likely value of θ_i conditional on the signal *and the conclusion about other variables* ($\tilde{\theta}_{-i}$). If θ_i is independent of the other variables conditional on s , this is the mode of the marginal posterior distribution of θ_i . However, if θ_i is related to other beliefs, the conclusion chosen will depend on the conclusion about the state of the world writ large.

For core beliefs, a useful characterization in the applications is the following: Suppose $\theta \in \mathbb{R}^n$, and that $f_{\theta|s}$, v and a are continuous and differentiable. Then any optimal conclusion $\tilde{\theta}_i$ must be a θ_i which solves the first order condition:

$$\frac{\partial v(\theta_i, \tilde{\theta}_{-i})}{\partial \theta_i} = -\frac{\partial}{\partial \theta_i} \left[a(f_{\theta|s}(\theta_i, \tilde{\theta}_{-i}|s)) \right] \quad (2)$$

for each i . The main lesson (2) teaches is that an agent who prefers a higher conclusion about θ_i on the margin (the left-hand side is positive) must pick an a conclusion which would become more plausible if lowered ($f_{\theta|s}(\theta_i, \tilde{\theta}_{-i}|s)$ must be decreasing in θ_i at $\tilde{\theta}$). Similarly, if the agent intrinsically prefers a lower conclusion on the margin, a higher conclusion must be more plausible.

So, there must be a tradeoff between the accuracy and directional motives.

This leads to a general result about what happens when either the accuracy or directional motive becomes more important. To formalize, write the a function as $w_a a_0(\cdot)$ where a_0 is a “baseline” accuracy motive and $w_a > 0$ is a scale parameter which measures how important this factor is. Similarly, write the v function as $w_v v_0(\cdot)$ for $w_v > 0$. Taking comparative statics on these scale parameters:

Proposition 1. *i. The plausibility of the optimal conclusion ($f_{\theta|s}(\tilde{\theta}|s)$) is increasing in w_a and decreasing in w_v , and*
ii. the directional value associated with the optimal conclusion ($v_0(\tilde{\theta})$) is decreasing in w_a and increasing in w_v .

Proof See the appendix.

Naturally, when the agent cares more about the accuracy motive, he will shift to a more likely assessment. Since the optimal conclusion requires tradeoffs on the margin, this also implies that he picks a conclusion which he intrinsically likes less. Conversely, as the agent cares more about the directional motive, he will pick a conclusion he intrinsically likes better at the cost of being less realistic. This is consistent with empirical results that partisan differences in beliefs about political facts diminish when respondents are given monetary incentives for correct answers (Bullock et al., 2015; Prior et al., 2015).⁹

We now turn to some more specific applications of this modeling framework.

⁹However, these studies do *not* find substantial increases in the accuracy of responses with monetary incentives. This is consistent with respondents in different parties having similar and uninformative beliefs about the questions they are asked, but different v functions. If so, putting more weight on the accuracy motive will lead to a convergence of reported beliefs, though not necessarily to a detectably more accurate belief.

3 Application 1: Success, Luck, and Imposter Syndrome

Consider an agent forming a conclusion about a *quality* $\theta \in \mathbb{R}$. He starts with a prior belief on θ which is normal with mean μ_θ and variance σ_θ^2 . He then observes a noisy signal of the quality, given by:

$$s = \theta + \epsilon \tag{3}$$

where ϵ is normally distributed with mean 0 and variance σ_ϵ^2 .

In this and later models, I will focus on two interpretations of this signal. In the first, θ is the agent’s own ability on some dimension (intelligence, skill at his job, etc.). Here a natural way to view s is a score on a test or success at a task affected by the ability in question (e.g., job performance). For this interpretation I will generally refer to ϵ as “luck”. Call this the ST (“self test”) interpretation.

For the second interpretation, θ will refer to the performance of a politician who the agent is invested in supporting or opposing. Here the signal could naturally correspond to a news story about the politician, or an opinion about the politician presented by a friend. To keep the directions of the directional motive aligned between interpretations, I primarily focus on the case where the politician is favored by the agent. Call this the \mathcal{PN} (“political news”) interpretation.

For either interpretation, two key assumptions are implicit. First, that the signal is only driven by the quality θ and one other factor deemed “noise” or “luck”. In section 4, I allow for other factors. Second, the agent knows the mapping between quality and noise to the signal. In particular, a unit increase in either quality or noise is associated with a unit increase in the signal. So, this formulation can not capture the core notion of attribution theory: that people must form inferences about not only the inputs which determine success (or any other outcome), but about which inputs are most important. This is addressed in section 5.

The Bayesian belief The standard Bayesian update on θ conditional on s is normally distributed with mean that is a weighted average of the prior and the signal:

$$\mu_{\theta}^B(s) \equiv \frac{\sigma_{\theta}^{-2}}{\sigma_{\theta}^{-2} + \sigma_{\epsilon}^{-2}} \mu_{\theta} + \frac{\sigma_{\epsilon}^{-2}}{\sigma_{\theta}^{-2} + \sigma_{\epsilon}^{-2}} s$$

and variance $\bar{\sigma}_{\theta}^2 \equiv \frac{1}{\sigma_{\epsilon}^{-2} + \sigma_{\theta}^{-2}}$. So, $f_{\theta|s}(\theta|s) = \frac{1}{\bar{\sigma}_{\theta}} \phi\left(\frac{\theta - \mu_{\theta}^B(s)}{\bar{\sigma}_{\theta}}\right)$, where ϕ is the PDF of a standard normal random variable.

Rearranging (3), any signal and conclusion about the quality imply a conclusion about the error term: $\tilde{\epsilon} = s - \tilde{\theta}$. Since the mode of the Bayesian belief is the same as the mean, the distortion of the quality conclusion is $d(\tilde{\theta}) = \tilde{\theta} - \mu_{\theta}^B(s)$. The conclusion about luck contains a distortion of the same magnitude, just in the opposite direction: $\tilde{\epsilon} = s - (\mu_{\theta}^B(s) + d(\tilde{\theta})) = s - \mu_{\theta}^B(s) - d(\tilde{\theta})$. So, any upward distortion of the quality conclusion entails a downward distortion of the luck conclusion with equal magnitude. Conversely, a downward distortion of the quality conclusion mechanically requires an upward distortion of the luck assessment.

The optimal conclusion Using the notation from the previous section, let $a(\cdot) = \log(\cdot)$. So, the optimal conclusion is given by

$$\tilde{\theta} = \arg \max_{\theta} \log f_{\theta|s}(\theta|s) + v(\theta) \quad (4)$$

For now, I only assume that v is continuous and twice-differentiable.

The “log-likelihood formulation” of the accuracy motive is particularly convenient when combined with normal distributions, as the accuracy motive becomes a quadratic function centered at $\mu_{\theta}^B(s)$. So, there are increasing marginal costs to shifting his conclusion away from the standard

Bayesian belief. In particular,

$$\log f_{\theta|s}(\theta|s) = k_1 - \frac{(\theta - \mu_{\theta}^B(s))^2}{2\bar{\sigma}_{\theta}^2} \quad (5)$$

where k_1 collects terms which are not a function of θ and hence drops out in the maximization problem. (The subscript is to differentiate from subsequent constants.)

The first order condition for $\tilde{\theta}$ is then:

$$v'(\tilde{\theta}) = \frac{\tilde{\theta} - \mu_{\theta}^B(s)}{\bar{\sigma}_{\theta}^2} \quad (6)$$

Since the mean of the Bayesian posterior distribution is also the mode, the distortion of the belief is $d(\tilde{\theta}) = \tilde{\theta} - \mu_{\theta}^B(s)$. Substituting this into (6) and rearranging gives an expression for the optimal distortion:

$$d(\tilde{\theta}) = v'(\tilde{\theta})\bar{\sigma}_{\theta}^2 \quad (7)$$

So, in the \mathcal{ST} interpretation, the agent will have a higher self-assessment than the Bayesian mean if and only if he prefers a higher self-assessment (on the margin). Less obvious, the magnitude of the distortion is increasing in $\bar{\sigma}_{\theta}$, i.e., conclusions are more distorted over characteristics where the agent has little information. So, if there is a benefit to having the freedom to pick favorable conclusions, one might prefer to be less informed about their ability or the performance of politicians. People may be averse to seeking out information they worry will be negative not just because learning bad news is uncomfortable, but because it makes the tradeoffs in plausibility required to reach a more pleasant conclusion sharper.

In the \mathcal{PN} interpretation, this result could provide a reason for politicians to make ambiguous promises to audiences pre-disposed to support them, a point which I revisit in section 6.

More detailed results about distortion in the agent's conclusion depends on the shape of the v

function. Consider two plausible cases.

Case 1: Higher self-evaluation is always better First, suppose the agent always wants a higher conclusion about the quality, but with diminishing marginal returns:

Proposition 2. *If v is increasing and concave, then:*

- i. $\tilde{\theta} > \mu_{\theta}^B(s)$,
- ii. $\tilde{\theta}$ is increasing in s , but
- iii. $d(\tilde{\theta})$ is decreasing in s .

Proof Part i follows from (2), and part ii from implicitly differentiating the equilibrium condition. For part iii, consider any $s_1 < s_2$, and let $\tilde{\theta}_1$ and $\tilde{\theta}_2$ be the corresponding optimal conclusions. By part ii and the concavity of v , $v'(\tilde{\theta}_1) > v'(\tilde{\theta}_2)$, and, by (6), $\tilde{\theta}_1 - \mu_{\theta}^B(s_1) > \tilde{\theta}_2 - \mu_{\theta}^B(s_2)$ ■

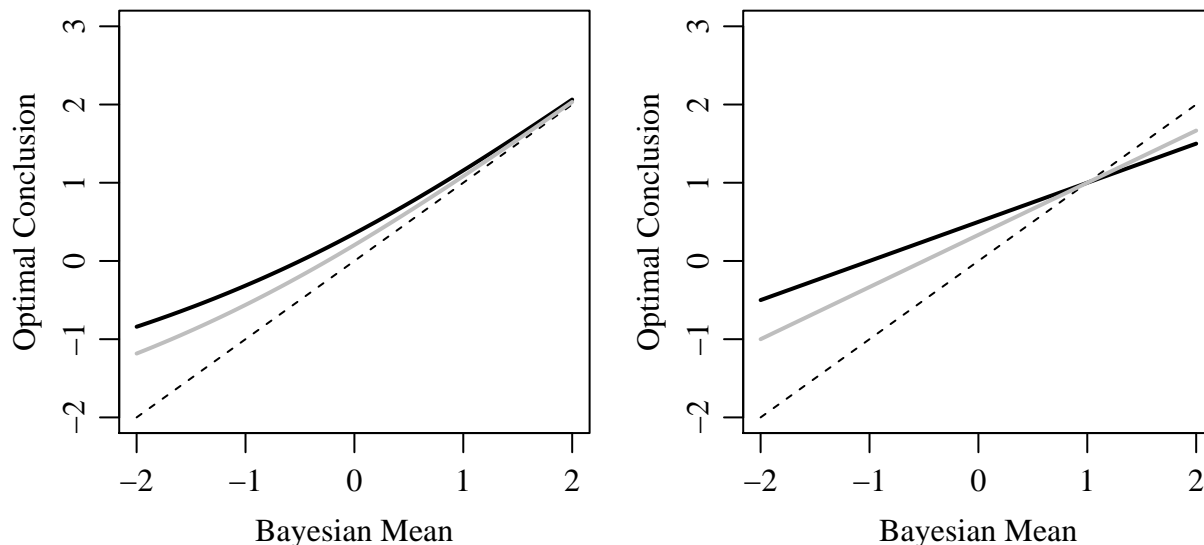
So, the conclusion moves in the “correct” direction as the signal of quality changes, but distortion relative to the Bayesian posterior is greater when the signal is low. More on this below.

Case 2: Don’t get too cocky When forming beliefs about one’s ability or the performance of a favored politician, it is probably unreasonable to assume v is globally decreasing, i.e., the agent always prefers lower conclusions. However, using interpretation \mathcal{ST} , suppose the agent is uncomfortable thinking his ability is “too high,” either for internal reasons or to not come off as arrogant. A natural way to model that is to suppose v is single-peaked function:

Proposition 3. *Suppose v is continuous and differentiable, and there exists a θ^* such that $v'(\theta) > 0$ for $\theta < \theta^*$ and $v'(\theta) < 0$ for $\theta > \theta^*$. Then there exists an s^* such that for $s < s^*$, $\tilde{\theta} \in (\mu_{\theta}^B(s), \theta^*)$, and for $s > s^*$, $\tilde{\theta} \in (\theta^*, \mu_{\theta}^B(s))$*

Proof See the appendix.

Figure 1: Optimal conclusions as a function of the Bayesian mean with increasing and concave (left), and single-peaked (right) v function.



Intuitively, the agent always forms a conclusion between what he intrinsically wants to believe and what a Bayesian would think of his ability. So, high performers will think they are not as good as they really are, or, equivalently, think they just got lucky. Low performers will think they are better than they really are.

Summary and empirical discussion Figure 3 summarizes how the conclusions about quality diverge from the Bayesian posterior mean for the two cases for the v function. In both panels, the dashed line is the 45-degree line, so conclusions further above this represent larger distortions. The black curves correspond to a case with more uncertainty in the posterior belief (higher $\bar{\sigma}_\theta^2$) and the grey curves represent a case with less uncertainty.

The left panel illustrates the case where higher conclusions are always better but with diminishing returns (v increasing and concave). The distortions are largest for low signals; i.e., those performing poorly on the test or reading a highly negative article about the favored politician. Distortions are smaller for those who do well, eventually the conclusion converges to the Bayesian

mean. For any $\mu_{\theta}^B(s)$, the distortion of the conclusion is greater with more uncertainty, i.e., a higher $\bar{\sigma}_{\theta}^2$.

More generally, those learning unpleasant information form the most distorted beliefs. There is a pessimistic element to this result: getting people to accept facts far from what they want to believe will always be a challenge. Still, there is a silver lining. Everyone is responsive to the information they receive, in the sense that higher signals lead to higher conclusions about whatever the signal indicates. Learning happens and “in the right direction”, just not as far as a Bayesian purist would predict or hope. (See Hill 2017 for empirical evidence consistent with this prediction close the \mathcal{PN} interpretation)

The right panel illustrates the case where v is single peaked and the self-assessment the agent intrinsically likes best is $\theta^* = 1$. In this case, the conclusions are above the Bayesian mean for $\mu < \theta^*$, and below for higher means. Again the magnitude of this deviation is higher when $\bar{\sigma}_{\theta}^2$ is high.

With interpretation \mathcal{ST} , this provides a simple theory for the origin of “imposter syndrome” among successful people (Clance and Imes, 1978). Those who perform well have a high Bayesian posterior about their ability, and may recognize that others will interpret this to objectively mean they are high ability. To form a more comfortable assessment, they explain their success by ascribing it to other factors (“the error term”), even if they realize others with the same data would conclude that they really have high ability.

If our agent accepts that he is of lower ability than a Bayesian/“other” would conclude, then he should expect that future signals of his performance should be lower than his past performance. So, once his conclusion is formed in this manner, it is in a sense “correct” to fear that he will be revealed as an “imposter” by future signals.

To be somewhat formal about this, suppose the agent truly has an ability two standard deviations above the mean ($\theta = 2$). He starts with a weak prior about his ability, then observes an accurate signal $s_1 = 2$, generating a Bayesian posterior centered around $\mu_{\theta}^B(2) = 2$. The desire

to not seem too full of himself pushes his conclusion down to $\tilde{\theta} = 1$.¹⁰ If he thinks that the next signal will be close to his own conclusion about ability, he will expect that the second signal will be around $s_2 = 1$. If the two signals are weighted equally, this will lead the Bayesian posterior to go down to from 2 to $\mu_{\theta}^B(s_1, s_2) = 1.5$. However, note that his premise that s_2 will likely be around 1 is incorrect: his true ability *is* two standard deviations above the mean. So if the second signal is also typical, the Bayesian/outsider will be unsurprised by the agents continue success, though he himself will just expect that the third (and later) signals will reveal him to be not as good as previously thought.

The model also suggests a connection between imposter syndrome and overconfidence. Since men are overconfident than women in a wide variety of contexts (e.g., Barber and Odean, 2001; Johnson et al., 2006; Ortoleva and Snowberg, 2015), this connection could explain why imposter syndrome is concentrated among successful women (empirical evidence on this front is mixed but generally in the direction that women are more apt to exhibit imposter feelings, see Cusack, Hughes and Nuhu 2013). In particular, suppose the overconfidence of men is driven (for whatever reason) by a stronger desire for a high self-assessment. This could be formalized by assuming men and women both have a single-peaked v function, but men tend to have a higher ideal (θ^*). This will result in (1) men having a higher upward distortion of their conclusion about their ability, and (2) women (particularly successful ones) having a higher upward distortion in their conclusion about how lucky they are.

4 Application 2: Discrimination, bias, and the “persecution complex”

While the model in the previous section considers the relationship between beliefs about two factors – in interpretation \mathcal{ST} , ability and luck – these variables are related by a simple accounting identity. Luck was just the difference between success and ability, so increase the conclusion about

¹⁰This would be the optimal conclusion if, for example $v(\theta) = -\theta^2$ and $\bar{\sigma}_{\theta} = 1/2$; see (6).

ability forced a change in the conclusion about luck.

Fortunately, the framework easily extends to belief distortion of less mechanically connected variables. This allows for a more satisfying model of how beliefs about multiple variables get distorted at the same time. Such a complication is important because success (and other observed outcomes) are generally driven by many factors.

When considering success in life, one of these factors is the degree of discrimination we face. Some groups face more discrimination than others, but there can be strong disagreement on which groups are disadvantaged and to what degree.

For example, substantial empirical evidence indicates that women and ethnic and religious minorities in the United States are subject to substantial discrimination in labor markets and other contexts (e.g., Riach and Rich, 2002; Bertrand and Mullainathan, 2004). However, a common trope on conservative media is a complaint that “if you’re a Christian or a white man in the USA, it’s open season on you.”¹¹ And part of them agrees: in a recent survey, Evangelical Christians on average report that Christians face more discrimination in the United States than Muslims,¹² a belief which other religious groups do not hold.¹³ In fact, another recent survey found that a majority of every racial group in the US believes they face discrimination.¹⁴

In the \mathcal{PN} interpretation, the natural analog to discrimination is bias of the news source. A large literature studies the reality and perceptions of bias in news sources (e.g., Groseclose and Milyo, 2005; Gentzkow and Shapiro, 2006). The strand most related to the model here has shown that people generally think that media is biased against their own party (Vallone, Ross and Lepper,

¹¹<http://www.wonkette.com/582723/bill-oreilly-hillary-clinton-to-murder-all-the-poor-white-christian-men-goodbye-america/>

¹²<http://www.patheos.com/blogs/godisnotarepublican/2015/07/please-stop-with-the-christian-persecution-complex-youre-embarrassing-the-faith/>

¹³Nor is this phenomenon limited to the United States. From Turkey: “another key element of Erdogan’s religious narrative is the idea of victimization, playing on the fact that political Islamists were treated with prejudice by the Kemalist army in the past. Somehow, after over 12 years in power, Erdogan still manages to convince his constituency that they are a victimized group and that he is the most victimized of all. This narrative trick is used over and over.” <http://foreignpolicy.com/2015/08/12/how-president-erdogan-mastered-the-media/>

¹⁴<http://www.npr.org/sections/health-shots/2017/10/24/559116373/poll-most-americans-think-their-own-group-faces-discrimination>

1985), particularly those who are strong partisans and highly involved in politics (Eveland and Shah, 2003).¹⁵

Why might such disagreements arise? To model this, write the signal of success as:

$$s = \theta - \delta + \epsilon$$

where δ represents the discrimination against the agent or the new source bias against the politician.¹⁶ Suppose θ , δ , and ϵ are (in the prior) independent normals with means μ_θ , μ_δ , and 0; and variances σ_θ^2 , σ_δ^2 , and σ_ϵ^2 .

The Bayesian belief From the signal of success, a Bayesian learns something about both his ability and how much discrimination he faces. In isolation, these updates happen in a natural manner: succeeding more makes it more likely that one is high ability and does not face discrimination. More consequential is how the updates are related.

Formally, to compute the posterior belief about θ and δ given s , first write and then partition the covariance matrix of (θ, δ, s) as:

$$\begin{array}{c} \theta \quad \delta \quad s \\ \theta \begin{pmatrix} \sigma_\theta^2 & 0 & \sigma_\theta^2 \\ 0 & \sigma_\delta^2 & \sigma_\delta^2 \\ \sigma_\theta^2 & \sigma_\delta^2 & \sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2 \end{pmatrix} \\ \delta \\ s \end{array} = \begin{pmatrix} \Sigma_{11} & \Sigma_{12} \\ \Sigma_{21} & \Sigma_{22} \end{pmatrix}$$

where $\Sigma_{22} = \sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2$ (which uniquely determines the remainder of the partition).

The joint distribution of (θ, δ) conditional on s is then jointly normal (Greene, 2008, p. 1014)

¹⁵See also study 2 in Davidai and Gilovich 2016 for evidence that those more invested in politics in the United States perceive more institutional bias against their preferred party.

¹⁶To be consistent with the notation in section 2 we could write the ability as θ_1 and discrimination as θ_2 , but the connection to the general framework is clear this allows for mnemonic interpretation.

with mean vector:

$$\begin{aligned} (\mu_\theta^B(s), \mu_\delta^B(s)) &= (\mu_\theta, \mu_\delta) + \Sigma_{12}\Sigma_{22}^{-1}(s - \mu_\theta + \mu_\delta) \\ &= \left(\frac{\mu_\theta(\sigma_\delta^2 + \sigma_\epsilon^2) + (s + \mu_\delta)\sigma_\theta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2}, \frac{\mu_\delta(\sigma_\theta^2 + \sigma_\epsilon^2) - (s - \mu_\theta)\sigma_\delta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2} \right) \end{aligned}$$

and covariance matrix:

$$\bar{\Sigma} = \Sigma_{11} - \Sigma_{12}\Sigma_{22}^{-1}\Sigma_{21} = \begin{array}{cc} & \begin{array}{c} \theta \\ \delta \end{array} \\ \begin{array}{c} \theta \\ \delta \end{array} & \begin{pmatrix} \frac{\sigma_\delta^2\sigma_\theta^2 + \sigma_\epsilon^2\sigma_\theta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2} & \frac{\sigma_\delta^2\sigma_\theta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2} \\ \frac{\sigma_\delta^2\sigma_\theta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2} & \frac{\sigma_\delta^2\sigma_\epsilon^2 + \sigma_\delta^2\sigma_\theta^2}{\sigma_\theta^2 + \sigma_\delta^2 + \sigma_\epsilon^2} \end{pmatrix} \end{array} \equiv \begin{pmatrix} \bar{\sigma}_\theta^2 & \overline{Cov}(\theta, \delta) \\ \overline{Cov}(\theta, \delta) & \bar{\sigma}_\delta^2 \end{pmatrix}$$

The individual updates resemble standard unidimensional learning models, as s is a noisy signal of θ with “error term” $\delta + \epsilon$, and also a noisy signal of $-\delta$ with “error term” $\theta + \epsilon$.

More important for our purposes, even though θ and δ were independent in the prior, *conditional on s* they have a positive covariance. This is because for a fixed degree of success, higher ability will generally be associated with facing more discrimination (“if she succeeded despite the obstacles, she must be really good”, “even the liberal New Republic...”). The correlation between the two variables conditional on s is

$$\rho = \frac{\overline{Cov}(\theta, \delta)}{\bar{\sigma}_\theta\bar{\sigma}_\delta} = \frac{\sigma_\delta\sigma_\theta}{\sqrt{(\sigma_\theta^2 + \sigma_\epsilon^2)(\sigma_\delta^2 + \sigma_\epsilon^2)}},$$

which is strictly positive, decreasing in σ_ϵ , and approaches 1 as $\sigma_\epsilon \rightarrow 0$.¹⁷

The optimal conclusion Suppose the belief about the quality θ is core, but discrimination/bias is auxiliary. The latter is not obviously so. Returning to our definition, assuming beliefs about

¹⁷Intuitively, when σ_ϵ^2 is very small, the agent knows that s must be very close to $\theta + \delta$, and so conditional on s any unit increase in the draw of θ must be associated with a one unit increase in δ .

discrimination are auxiliary implies that people do not intrinsically care about the conclusion they reach *in isolation*. For the \mathcal{ST} interpretation, one may object that people really do care about their beliefs about whether people like them face discrimination. Similarly, for the \mathcal{PN} interpretation, one could argue that beliefs about liberal media bias a central to conservative identity in the United States. Both objections are fair; however, the point of the modeling that follows is that these beliefs can become distorted even for those who *don't* care about discrimination or media bias in and of itself, but because these beliefs affect their worldview more generally. Put another way, the fact that people act as if they want to hold certain beliefs about whether they face discrimination may be driven solely by the desire to protect other beliefs which are more central to their identity.

As in the previous section let $a(\cdot) = \log(\cdot)$. Combined with the assumption that δ is auxiliary (and hence the directional term can be written $v(\theta)$), the optimal joint conclusion is:¹⁸

$$(\tilde{\theta}, \tilde{\delta}) \in \arg \max_{(\theta, \delta)} \log f_{\theta, \delta|s}(\theta, \delta|s) + v(\theta),$$

where $f_{\theta, \delta|s}$ is the bivariate normal density derived above, and so:

$$\log f_{\theta, \delta|s}(\theta, \delta|s) = k_2 - \frac{\left(\frac{(\theta - \mu_\theta^B(s))^2}{\sigma_\theta^2} - \frac{2\rho(\theta - \mu_\theta^B(s))(\delta - \mu_\delta^B(s))}{\sigma_\theta \sigma_\delta} + \frac{(\delta - \mu_\delta^B(s))^2}{\sigma_\delta^2} \right)}{2(1 - \rho^2)} \quad (8)$$

where k_2 collects the terms which do not depend on θ and δ and hence do not affect the optimization. Conveniently, (8) is quadratic in both θ and δ .

The first order conditions for the optimal conclusion are:

$$v'(\tilde{\theta}) = \left. \frac{\partial \log f_{\theta, \delta|s}(\theta, \delta|s)}{\partial \theta} \right|_{\theta=\tilde{\theta}, \delta=\tilde{\delta}} \quad (9)$$

$$0 = \left. \frac{\partial \log f_{\theta, \delta|s}(\theta, \delta|s)}{\partial \delta} \right|_{\theta=\tilde{\theta}, \delta=\tilde{\delta}}. \quad (10)$$

¹⁸As above, this conclusion corresponds to a luck conclusion $\tilde{\epsilon} = s - \tilde{\theta} + \tilde{\delta}$. Analogous results hold if writing the maximization problem as forming a joint inference about θ and ϵ .

Writing out (10), solving for $\tilde{\delta}$, and bringing in the definition of the distortion inherent in $\tilde{\delta}$:

$$\begin{aligned}\tilde{\delta} &= \mu_{\delta}^B(s) + \frac{\rho\bar{\sigma}_{\delta}}{\bar{\sigma}_{\theta}}(\tilde{\theta} - \mu_{\theta}^B) \\ \Leftrightarrow d(\tilde{\delta}) &= \frac{\overline{Cov}(\theta, \delta)}{\bar{\sigma}_{\theta}^2}d(\tilde{\theta})\end{aligned}\tag{11}$$

So, the distortion in the conclusion about discrimination/bias is a fraction of the distortion about the core quality θ . Further, this fraction is the ratio of the covariance between θ and δ and the variance of θ , i.e., the hypothetical regression coefficient for data drawn from the agent’s posterior belief about the two variables. Why? For any conclusion about θ , the agent will pick the δ which maximizes the density conditional on both θ and s : $f_{\delta|\theta,s}(\delta|\theta, s)$. This is the conditional mean of δ given θ and s . So, the joint conclusion about θ and δ always lies on the regression line.¹⁹

Importantly, this implies that *the degree to which auxiliary beliefs get distorted is directly tied to how closely related they are to core beliefs*. With the ST interpretation, this means that if discrimination does not drive much of the variance in life success, then there is little reason to distort beliefs about it. However, if believing that one faces high degrees of discrimination does make much more confident self-assessments plausible, beliefs about discrimination can be highly distorted. For the \mathcal{PN} interpretation, this means that the belief about the bias of a news source will get distorted more when the reporting induces a strong correlation between the bias and performance of the politician. This will tend to be true when the news source has reported a lot on the politician in question, so the authority of that reporting would make a Bayesian think what the news paper writes is highly informative about the politician.²⁰

¹⁹This principle always holds if there are multiple core variables and one auxiliary variable. For a fixed conclusion about the core variables, the agent picks the value of the auxiliary variable that maximizes the posterior likelihood, which is the “predicted value” of the regression equation evaluated at the core variable values. However, for multiple variables, deriving the coefficients for this regression equation from the covariance matrix become less tidy, so the practical value of this observation diminishes.

²⁰Formally, the correlation will be high when σ_{ϵ} is low, i.e., the news source is very informative (if potentially biased) about the politician performance. The model in the next section considers the informativeness of news sources in more detail.

To complete the derivation of the optimal assessment, plugging the optimal conclusion about δ as a function of the conclusion about θ into (8) and simplifying gives:

$$\log f_{\theta, \delta | s} \left(\theta, \mu_{\delta}^B(s) + \frac{\overline{Cov}(\theta, \delta)}{\bar{\sigma}_{\theta}^2} (\theta - \mu_{\theta}^B) \middle| s \right) = k_3 - \frac{(\theta - \mu_{\theta}^B(s))^2}{2\bar{\sigma}_{\theta}^2}$$

for a constant k_3 . Other than this constant (which differs from k_1 in (5), but also drops out when maximizing with respect to θ), this expression is the same as the log likelihood of the marginal distribution of θ . The optimal conclusion about θ (given the relationship between the optimal conclusions of θ and δ) is:

$$v'(\tilde{\theta}) = \frac{\tilde{\theta} - \mu_{\theta}^B}{\bar{\sigma}_{\theta}^2}. \quad (12)$$

So, the distortions on the belief about ability the performance of the politician are the same as the model in the previous section, just with a different posterior variance for the belief about ability.²¹

Summarizing:

Proposition 4. *With uncertainty about both θ and δ , the agent's posterior conclusion about his ability is characterized by (12), and the distortion of the belief about discrimination can be written:*

$$d(\tilde{\delta}) = v'(\tilde{\theta}) \overline{Cov}(\theta, \delta) \quad (13)$$

Proof Follows immediately from (11) and (12)

This formulation highlights two factors that determine how incorrect the belief about discrimination or bias becomes: how much the agent cares about his conclusion about θ ($v'(\tilde{\theta})$), and how closely related this belief is to the belief about discrimination or bias ($\overline{Cov}(\theta, \delta)$).

²¹The $\bar{\sigma}_{\theta}^2$ term in this section is different because it incorporates the noise associated with both ϵ and δ .

Summary and empirical discussion One way to interpret this comparison is that the agent does not form and incorrect belief about discrimination to help develop a better self-assessment, as he would reach the same conclusion if “ignoring” discrimination when forming a conclusion about ability. Rather, when trying to make sense of the joint facts about his ability and discrimination, his belief about discrimination gets “dragged along” by distortion of beliefs about ability. Similarly, disparate views of the reliability of news sources may be a consequence rather than a case of divergent views about what they report on.

Revisiting the motivating example, the White Christian males of America may believe they are discriminated against to make sense of a world where they are of high ability but this has not translated into objective success. And if there are diminishing marginal returns to higher conclusions about ability (i.e., v is concave) this tendency will be particularly strong among the unsuccessful.

However, can “blaming failure on discrimination” lead to higher self-evaluations? In a sense, yes: if the presence of an indeterminate amount of discrimination makes success a noisier signal of ability, then belief distortions will be greater. But once this greater noise is accounted for, one reaches the same conclusion about ability whether jointly assessing ability and discrimination or just the latter. More generally, we can’t infer from the the fact that people form incorrect beliefs about auxiliary facts that this is a cause of them forming incorrect beliefs about themselves or other core facts; rather, the desire to reach a certain conclusion about the core facts is what causes the wider set of false beliefs.

With the \mathcal{PN} interpretation, the model implies that those with different directional motives about the politician will reach different conclusions about the bias of the news source *even if they have all of the same information*. Further, those with different directional motives may appear to have different “prior” beliefs even if they have the same information. For example, suppose two people with the same prior belief but different directional motives, and then both observe the same signal according to the process described in this section. Since they have a different v function, they will reach a different conclusion. And if that conclusion acts as their prior belief (say, as measured

by a researcher before giving an informational treatment) before observing a new signal, it might appear that different priors are what drive different interpretations of the second signal. However, it is really the different directional motive that led to the different prior in the first place. So, it may prove challenging to distinguish between explanations of why different readers interpret the same new piece of information differently driven by purely Bayesian versus behavioral mechanisms.

5 Application 3: Attribution and the importance of luck

The final model shows how the framework can be used to model situations where the agent is unsure how important different factors are in driving the signal he observes. For the ST interpretation, he may not only make inferences about his ability from how well he does, but whether to attribute his performance to luck, skill, or other factors (Kelley, 1967; Ross, 1977; Kunda, 1987). For the \mathcal{PN} interpretation, our reader may be uncertain about how *accurate* the news source is, even setting aside issues of bias. To capture this, let the signal be:

$$s = \theta + \omega\epsilon.$$

As above, the prior on θ is normal with mean μ_θ and variance σ_θ^2 . In this section, let ϵ be a standard normal (i.e., with variance 1). The ω parameter scales how much noise the signal contains. To simplify, suppose $\omega \in \{g, b\}$, $0 < g < b$. So, when $\omega = g$, the signal has less noise (a “good test of ability”, “accurate news source”) compared to when $\omega = b$ (“bad test of ability”, or an “unreliable news source”). Let $\pi \in (0, 1)$ be the prior probability that the signal is good ($\omega = g$).

The agent forms his conclusion with respect to θ and ω , i.e., the quality and the degree to which the signal is driven by noise.²² Continuing to use the log-likelihood formulation of belief

²²Given there is a 1:1 mapping between any conclusion about (θ, ω) to a conclusion about (θ, ϵ) (write $\epsilon = (s - \theta)/\omega$), this is equivalent to forming a conclusion over θ and ϵ .

plausibility, the optimal conclusion solves:

$$(\tilde{\omega}, \tilde{\theta}) \in \arg \max_{(\omega, \theta)} \log f_{\theta, \omega | s}(\theta, \omega | s) + v(\theta, \omega).$$

The Bayesian belief The Bayesian joint posterior belief about ω and θ is a normal mixture distribution, with density:

$$f_{\theta, \omega | s}(\theta, \omega | s) = \begin{cases} Pr(\omega = g | s) f_{\theta | s, \omega}(\theta | s, g) & \omega = g \\ Pr(\omega = b | s) f_{\theta | s, \omega}(\theta | s, b) & \omega = b \end{cases}$$

There are two pairs or terms to compute. The $Pr(\omega = g | s)$ and $Pr(\omega = b | s)$ are the beliefs about whether the test is good or bad given the signal. Second, the $f_{\theta | s, \omega}(\theta | s, \omega)$ terms, which are the beliefs about θ conditional on s and ω . Start with the latter, which are the standard Normal-Normal Bayesian updates. The variance of the error term is ω , so the means of these updates are

$$\mu_{\theta}^B(s, g) = \frac{\sigma_{\theta}^{-2} \mu_{\theta} + g^{-1} s}{\sigma_{\theta}^{-2} + g^{-1}} \quad \text{and} \quad \mu_{\theta}^B(s, b) = \frac{\sigma_{\theta}^{-2} \mu_{\theta} + b^{-1} s}{\sigma_{\theta}^{-2} + b^{-1}},$$

and the posterior variances are

$$\bar{\sigma}_{\theta}(g)^2 = \frac{1}{\sigma_{\theta}^{-2} + g^{-1}} \quad \text{and} \quad \bar{\sigma}_{\theta}(b)^2 = \frac{1}{\sigma_{\theta}^{-2} + b^{-1}}.$$

Combining, the density of these posterior conditional beliefs is $f_{\theta | s, \omega}(\theta | s, \omega) = \frac{1}{\bar{\sigma}_{\theta}(\omega)} \phi\left(\frac{\theta - \mu_{\theta}^B(s, \omega)}{\bar{\sigma}_{\theta}(\omega)}\right)$.

To derive the posterior beliefs about the noisiness of the signal ($Pr(\omega = g | s)$ and $Pr(\omega = b | s)$), first note that conditional ω (but not θ), the distribution of s is normal with mean μ_{θ} and variance $\sigma_{\theta}^2 + \omega^2 \equiv \sigma_s(\omega)^2$. So:

$$Pr(\omega = g | s) = \frac{\pi \frac{1}{\sigma_s(g)} \phi\left(\frac{s - \mu_{\theta}}{\sigma_s(g)}\right)}{Pr(s)} \quad \text{and} \quad Pr(\omega = b | s) = \frac{(1 - \pi) \frac{1}{\sigma_s(b)} \phi\left(\frac{s - \mu_{\theta}}{\sigma_s(b)}\right)}{Pr(s)}$$

(I refrain from writing out the denominators as they drop out of relevant calculations.)

The optimal conclusion for a “outside observer” As a benchmark, first consider the case where v is constant, i.e., both θ and ω are auxiliary. This can be loosely interpreted as what the attribution literature describes as inferences made by an outside observer who does not intrinsically care about the ability of the test-taker (nor the reliability of the test). In the \mathcal{PN} interpretation, this could correspond to a news item about a topic where the reader has no directional motive.

It is immediate that for a fixed conclusion about ω , the optimal conclusion about θ is $\mu_\theta^B(s, \omega)$. For example, once the neutral observer decides the test is accurate, he picks the most likely conclusion about the quality giving $\omega = g$.

So, the overall optimal conclusion is either $(g, \mu_\theta^B(s, g))$ or $(b, \mu_\theta^B(s, b))$. The good test conclusion leads to a higher posterior likelihood if and only if:

$$\begin{aligned}
 Pr(\omega = g|s)f_{\theta|s,\omega}(\mu_\theta^B(s, g)|s, g) &\geq Pr(\omega = b|s)f_{\theta|s,\omega}(\mu_\theta^B(s, b)|s, b) \\
 \frac{\pi \frac{1}{\sigma_s(g)} \phi\left(\frac{s-\mu_\theta}{\sigma_s(g)}\right)}{Pr(s)} \frac{1}{\bar{\sigma}_\theta(g)} \phi(0) &\geq \frac{(1-\pi) \frac{1}{\sigma_s(b)} \phi\left(\frac{s-\mu_\theta}{\sigma_s(b)}\right)}{Pr(s)} \frac{1}{\bar{\sigma}_\theta(b)} \phi(0) \\
 \frac{\pi}{1-\pi} \frac{\bar{\sigma}_\theta(b)}{\bar{\sigma}_\theta(g)} &\geq \frac{\frac{1}{\sigma_s(b)} \phi\left(\frac{s-\mu_\theta}{\sigma_s(b)}\right)}{\frac{1}{\sigma_s(g)} \phi\left(\frac{s-\mu_\theta}{\sigma_s(g)}\right)} \tag{14}
 \end{aligned}$$

When the two ratios on the left-hand side of (14) are high, the agent tends to believe the signal is accurate. The first ratio reflects the prior information: when the prior indicates the test is likely to be accurate (high π , low $1 - \pi$), this conclusion is more likely.

Less obvious, the second ratio is the standard deviation of the posterior belief about θ with a bad test over a good test. This is always above 1, indicating a general tendency to conclude that the signal of success is accurate. Algebraically, this follows from the fact that the peaks of normal densities are higher when the standard deviation is low. The agent wants to be confident about his conclusion about θ , and believing the test had low noise allows for a more precise estimate.

To clarify this intuition, it is instructive to ponder a more discrete analog. Suppose ability is either below average ($\theta = -1$), average ($\theta = 0$), or above average ($\theta = 1$), with equal prior probability. An accurate test returns exactly $s = \theta$, while a bad test returns each result with equal probability. For any result, there are four possibilities: the test is accurate and therefore $\theta = s$, or the test is inaccurate and the ability level is any of the three possibilities. Since accurate tests are always correct, the posterior probability assigned to the test being accurate and $\theta = s$ is π .²³ The posterior probability assigned to the test being bad and each of the three possible ability levels is $(1 - \pi)(1/3)$.²⁴ Rearranging, as long as $\pi > 1/4$, the accurate test conclusion is the most plausible. So, even if the *marginal* conclusion about the accuracy of the test lends more credence to a noisy test ($\pi < 1/2$), the most plausible *joint* conclusion about the test and the test-taker may be that the test is accurate and the takers' ability is almost exactly equal to what the test indicates.

Interpreting ability-as-auxiliary as the case of assessing others, this is consistent with a key part of the fundamental attribution error (Ross, 1977). If we want to form inferences about the ability of others and just want them to be plausible, there is a bias towards thinking that outcomes are driven by ability rather than situational factors. Things will be different when ability is a core belief and the agent faces pressure to form a conclusion away from the peak of the posterior density, which drops off more sharply when believing the test is accurate.

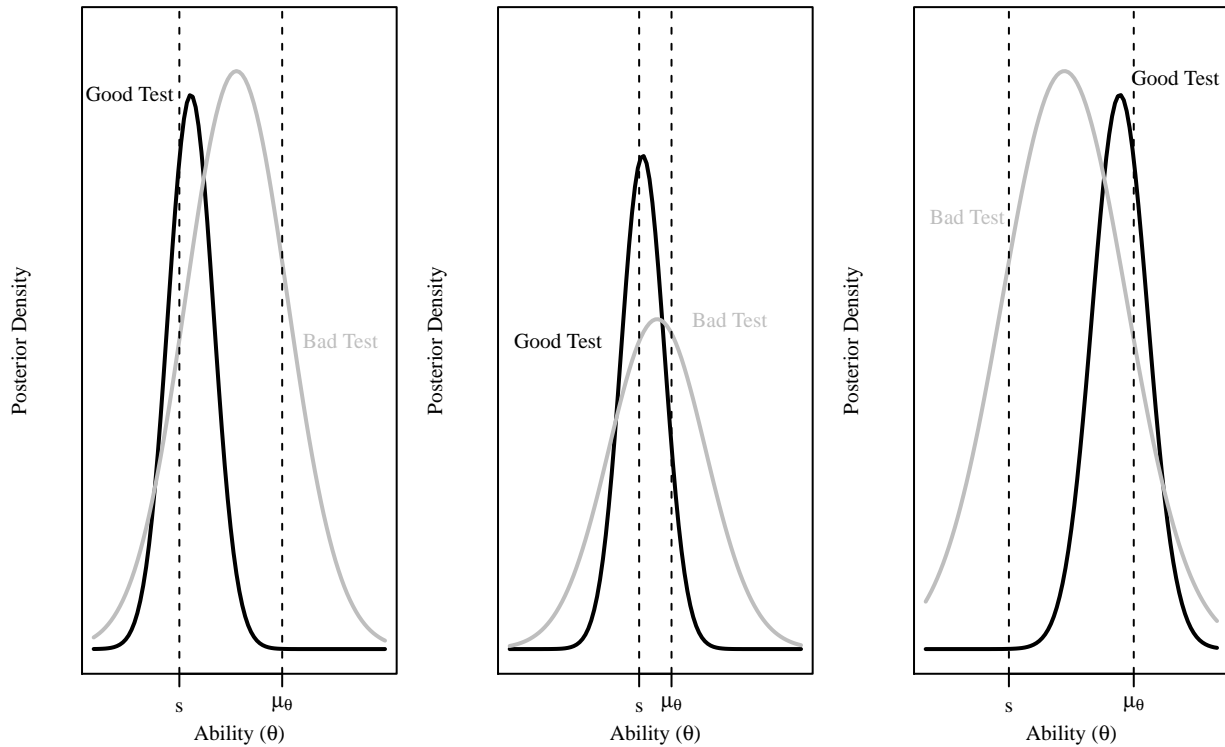
Next consider the right-hand side of (14), which is relative likelihood of observing s under the low or high noise state. This will be high when s is close to μ_θ , and low when s is far from μ_θ . Intuitively, when observing a “normal” signal, the observer tends to think the test is accurate. When observing an extreme signal, the observer becomes convinced that the signal must be a noisy signal of ability simply because the result is so extreme.

Figure 5 illustrates these observations for a case where the test is unlikely to be accurate in the prior. Each panel plots the Bayesian posterior belief about ω and θ . The black curve represents the

²³Formally, $Pr(\omega = g, \theta = s | s) = \frac{(1/3)\pi}{(1/3)}$

²⁴Formally, $Pr(\omega = b, \theta | s) = \frac{(1-\pi)(1/3)(1/3)}{1/3}$

Figure 2: The Bayesian posterior belief in the attribution model with a low, medium, and high signal.



$\omega = g$ component of the mixture, and the grey curve the $\omega = b$ component. In each panel, the area under the curve for the $\theta = b$ curve is greater, meaning if the agent only formed a conclusion about the test he would conclude it was noisy for each signal. The optimal conclusion is the highest point among the two curves. The fact that the “good test” curve is steeper illustrates the general tendency to conclude the test was accurate. However, in the left and right panels, this is outweighed by the fact that the signal is extreme (and the prior indicates it is not accurate), and so the optimal conclusion is that the test is bad, and the ability is at the peak of the grey curve. For the middle panel, where the signal is less extreme, the observer concludes the test was accurate and the ability is almost exactly what the signal indicates.

Formally:

Proposition 5. *Suppose both θ and ω are auxiliary. If $\frac{(1-\pi)\bar{\sigma}_\theta(g)}{\pi\bar{\sigma}_\theta(b)} \geq \frac{\sigma_s(b)}{\sigma_s(g)}$, then the optimal assessment $(\tilde{\omega}, \tilde{\theta}) = (b, \mu_\theta^B(s, b))$ for all s . If the reverse inequality holds, then there exists a (\underline{s}, \bar{s}) such that the optimal assessment is $(\tilde{\omega}, \tilde{\theta}) = (g, \mu_\theta^B(s, g))$ for $s \in (\underline{s}, \bar{s})$ and $(b, \mu_\theta^B(s, b))$ otherwise.*

Proof See the appendix

A naive reading of this result could indicate that there are more circumstances where the neutral observer believes that the signal was high noise. However, note that $\frac{\bar{\sigma}_\theta(g)}{\bar{\sigma}_\theta(b)} < 1$ and $\frac{\sigma_s(b)}{\sigma_s(g)} > 1$. So, if starting with a neutral prior on the signal being low or high noise (i.e., $\pi = 1/2$), the agent will think the signal is primarily driven by ability for signals which are not too extreme (i.e., s close to μ_θ). For example, suppose $\sigma_\theta = g = 1$, $b = 2$, and $\pi = 1/2$. Then the chance of a signal moderate enough to induce a low noise assessment is nearly 90%.²⁵ So, the result is largely consistent with the idea that people tend to think the success of others is mainly driven by their ability rather than situational factors. However, this tendency will be weaker when observing an unexpected performance level. This result can be interpreted as a continuous analog to the empirical finding that people are more apt to attribute success to ability and not luck when the results conform with expectations (Feather, 1969).

More importantly, most of the cited results in the attribution literature are about *comparisons* between how neutral observers (e.g., “outsiders”) form conclusions versus those with a vested interest in reaching a certain conclusion would (e.g., “self”). The next analysis makes this comparison.

The optimal conclusion when ability is a core belief Now consider an agent who does care about having a high self-assessment of ability, or a reader who has a directional motive in how they view the subject of a news article.

²⁵When the noise is in fact low, the probability that $s \in (\underline{s}, \bar{s})$ is 0.83, and when it is in fact high the analogous probability is 0.9

To simplify, let $a(\cdot) = \log(\cdot)$ and $v(\theta) = \alpha\theta$, for $\alpha > 0$. So, the agent always wants a higher conclusion about θ , and α scales the magnitude of this preference.

A two step procedure determines the optimal overall conclusion. First, compute the optimal conclusion about θ conditional on $\tilde{\omega} = g$ and $\tilde{\omega} = b$. Second, compare the maximum values of the objective function under both options.

For the first step, the optimal conclusion about θ as a function of $\tilde{\omega}$ maximizes:

$$\begin{aligned} & \log(\text{Pr}(\tilde{\omega}|s)f_{\theta|s,\omega}(\theta|s,\tilde{\omega})) + \alpha\theta \\ &= k_4 - \frac{(\theta - \mu_{\theta}^B(s,\tilde{\omega}))^2}{2\bar{\sigma}_{\theta}(\tilde{\omega})^2} + \alpha\theta \end{aligned}$$

for a constant k_4 . Again the log formulation proves convenient as most of the terms drop out when optimizing θ , and the problem is globally concave, with maximizer

$$\tilde{\theta}(\tilde{\omega}) = \mu_{\theta}^B(s,\tilde{\omega}) + \alpha\bar{\sigma}_{\theta}(\tilde{\omega})^2$$

The optimal conclusion is equal to the Bayesian belief plus a distortion. The distortion is larger when the agent cares a lot about forming a high belief (high α) and there is more uncertainty about ability ($\bar{\sigma}_{\theta}(\tilde{\omega})^2$).

When is this conclusion higher under a belief that the test is accurate versus noisy? It depends. The distortion is always greater under the high noise assessment, as it is easier to shift one's belief when more uncertain. However, the Bayesian belief is higher for a good test if and only if $s > \mu_{\theta}$. That is, conditional on doing well, there is a tendency to believe success is mostly driven by ability. Combining, the agent will only have a higher self-assessment of ability if assessing the test as low noise when doing substantially better than expected. And if the signal is too much higher than average, an accurate test becomes very implausible, potentially leading back to a high-noise optimal assessment.

To see how these effects shake out, we need to complete the derivation of the optimal assessment. The objective function evaluated at $\theta = \tilde{\theta}(\tilde{\omega})$ simplifies to:

$$\begin{aligned} & \log(Pr(\tilde{\omega}|s)) - \log(Pr(s)) + \log\left(\frac{1}{\bar{\sigma}_\theta(\tilde{\omega})} \phi\left(\frac{\tilde{\theta}(\tilde{\omega}) - \mu_\theta^B(s, \tilde{\omega})}{\bar{\sigma}_\theta(\tilde{\omega})}\right)\right) + \alpha\tilde{\theta}(\tilde{\omega}) \\ &= \log\left(\frac{\phi(\alpha\bar{\sigma}_\theta(\tilde{\omega}))Pr(\omega|s)}{\bar{\sigma}_\theta(\tilde{\omega})}\right) - \log(Pr(s)) + \alpha(\mu_\theta^B(s, \tilde{\omega}) + \alpha\bar{\sigma}_\theta(\tilde{\omega})^2). \end{aligned} \quad (15)$$

The accurate test conclusion is now preferred if and only if (15) evaluated at $\tilde{\omega} = g$ is higher than it is when evaluated at $\tilde{\omega} = b$, which simplifies to:

$$\alpha(\mu_\theta^B(s, g) - \mu_\theta^B(s, b) + \alpha(\bar{\sigma}_\theta(g)^2 - \bar{\sigma}_\theta(b)^2)) \geq \log\left(\frac{\phi(\alpha\bar{\sigma}_\theta(b))Pr(\omega = b|s)\bar{\sigma}_\theta(g)}{\bar{\sigma}_\theta(b)\phi(\alpha\bar{\sigma}_\theta(g))Pr(\omega = g|s)}\right)$$

The left-hand side represents the intrinsic (dis)advantage of reaching the ability conclusion associated with the high noise versus low noise. The right-hand side reflects the comparison between the objective likelihood of the optimal high and low noise conclusions.

The log formulation again proves convenient, as both sides are quadratic functions of s (see the Appendix for detail). So, like the auxiliary case, the inequality either always holds, in which case the high noise conclusion is always preferred, or, there is an interval of signals where the agent thinks the test is accurate:

Proposition 6. *When $v(\theta) = \alpha\theta$, then there exists a $\pi^* \in (0, 1)$ such that:*

(i) *if $\pi < \pi^*$, then the optimal assessment is $(\tilde{\omega}, \tilde{\theta}) = (b, \mu_\theta^B(s, b) + \alpha\bar{\sigma}_\theta(b)^2)$ for all s .*

If $\pi > \pi^$, then:*

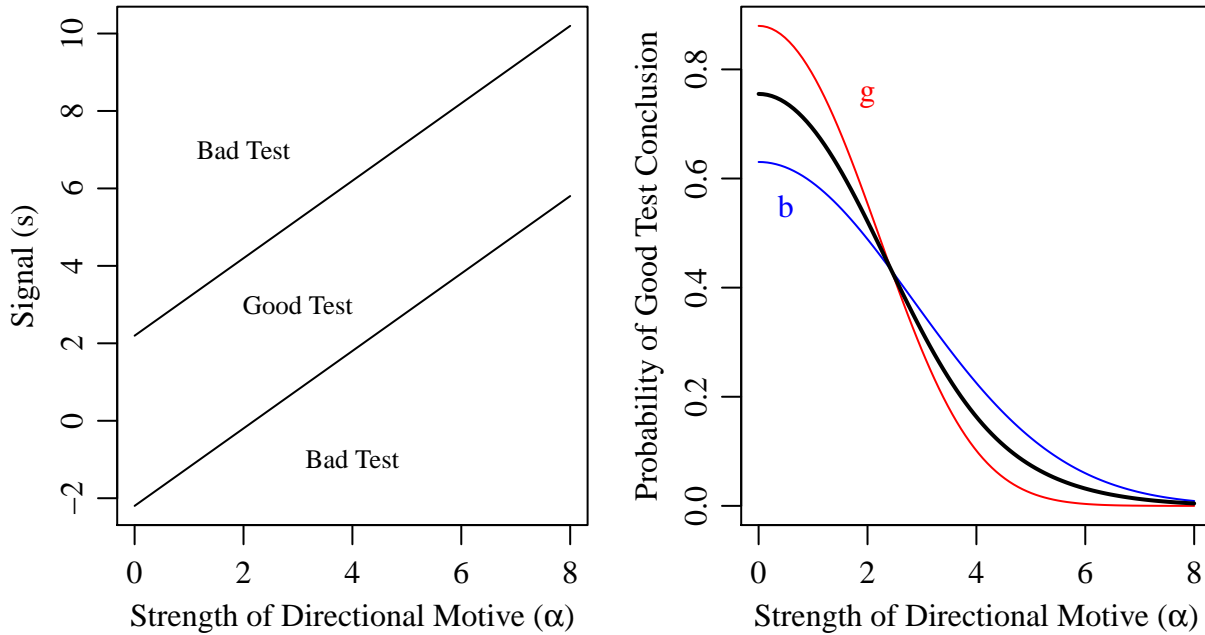
(ii) *there exists a (\underline{s}, \bar{s}) such that the optimal assessment is $(\tilde{\omega}, \tilde{\theta}) = (g, \mu_\theta^B(s, g) + \alpha\bar{\sigma}_\theta(g)^2)$ for $s \in (\underline{s}, \bar{s})$ and $(b, \mu_\theta^B(s, b) + \alpha\bar{\sigma}_\theta(b)^2)$ otherwise, where*

(iii) *\underline{s} and \bar{s} are increasing in α , and*

(iv) *$\bar{s} - \underline{s}$ is constant in α .*

Proof See the appendix

Figure 3: Range of signals of success leading to low noise attribution as a function of α .



In words, unless the prior is that the test is very likely to be high noise, then there is a “window” of signals where the agent thinks the test is accurate. This window is increasing in his desire to have a high self-evaluation, though the length of the window is constant in α .

Summary and empirical discussion Figure 5 shows an example of how introducing the need for positive self-evaluation affects attribution. In both panels, higher values on the x-axis correspond to a greater desire to have a positive self-evaluation. The the \mathcal{PN} application, higher values of α correspond to a stronger desire to have a positive view of the politician being written about.

The left panel shows which signals leads to the conclusion that the signal is a good or bad test. For signals between the two lines vertically, the optimal conclusion is that the signal is low noise. At $\alpha = 0$, the evaluator does not care at all about θ , i.e., the case where the belief conclusion is auxiliary. The range of signals accepted as low noise are symmetric around $\mu_\theta = 0$. Again, this illustrates fact that, absent other considerations, people are apt to think tests accurately measure

ability when their performance is close to expectations (Feather, 1969).

As α increases, there is an upward shift of the window of levels of success where the agent believes success is mostly driven by ability. People who care more about their self-assessment of ability are more apt to “believe” tests which are in their favor. However, no matter how much the agent wants to believe they are high ability, extremely high signals always lead him to conclude that the test does not measure ability well.²⁶

The right panel makes the final connection to empirical results about attribution, plotting the probability of a signal which leads to a low noise conclusion as a function of α . The red curve shows the probability of a low noise conclusion when the test is in fact low noise, and the blue curve when the test is high noise. The black curve plots the average probability of a low noise assessment.

All three curves are decreasing in α . This is because the (unconditional) distribution of s is symmetric and single peaked around $\mu_\theta = 0$. So, shifting the window of accepted signals upwards decreases the probability that the agent believes the signal is a good measure of ability. This completes the model’s derivation of the fundamental attribution error: those who care a lot about seeming high ability tend to think their performance is not primarily driven by ability, as this allows them more leeway to reach positive self-evaluations (Ross, 1977).

Comparing the blue and red curves, a neutral observer or someone with a lower need for a positive self-evaluation is more likely to think the test is accurate ($\omega = g$) when it is in fact accurate. Visually, the red curve is above the blue curve for low α . However, the curves eventually cross. So, someone who cares a great deal about a positive self-evaluation is more likely to think that the test is accurate when it is in fact *not* accurate. This is because only noisy tests have a decent chance of giving an positive enough score that someone with high α will believe they are accurate. Tests which are truly accurate generally deliver truer but less acceptable results to people

²⁶Technically, this follows from the fact that the plausibility of the signal being low-noise falls faster than the advantage of believing the (positive) signal is accurate.

with strong directional motives.

The Political Attribution Error? In the \mathcal{PN} interpretation, those with strong directional motives plausibly correspond to strong partisans and those highly involved in politics, including politicians themselves. According to the model, readers without directional motives will tend to trust their sources of information, as this leads to more plausible conclusions about the subject of reporting. On the other hand, strong partisans and politicians will tend to be skeptical about the accuracy of media which objectively is “neutral” and “accurate”. Further, as shown by the b curve lying above the g curve in the right panel of figure 5, they may place more trust in news sources which are in fact *less* accurate. This seems consistent with an informal observation that all politicians tend to complain about the accuracy of the media (and, given the model in the previous section, biased against them).

6 Overview and Other Ideas

The applications in this paper are admittedly scattershot. Empirical examples span disciplines and decades. While it risks becoming disorienting, this broadness is purposeful, as it hopefully indicates how the approach introduced here is flexible enough to apply to many domains. What ties the results together is that they are all consequences of the maximization problem given by (1), which balances the desire to reach accurate conclusions that are also intrinsically palatable, where the accuracy motivation can span several related variables.

Rather than recap the disparate results again, here are some brief thoughts on how to extend or apply this technology to other questions.

Ambiguity (in campaigns) As alluded in the discussion surrounding equation 7, the ease of shifting beliefs about variables about which one is uncertain could imply an advantage to ambiguity. Suppose two candidates are competing in a primary, a situation where voters probably want to

like whichever candidate wins. If one of the candidates makes their positions very clear, voters will be able to see differences between these positions and their preferred policy. This will be good for voters with very similar ideal points, but potentially harmful for those further from the candidate. However, voters who want to like the politician (or, perhaps, anticipate having to support her in the general election) may generally prefer candidates whose views are vague, making it easier distort their beliefs about her position closer to their own. As long as there is enough heterogeneity of beliefs among primary voters, the benefits of ambiguity in seeming palatable to a wider audience may outweigh the costs of not being strong preferred by those with very similar preferences.²⁷ This notion is consistent with experimental results from Tomz and Van Houweling (2009), who find that “when voters encountered an ambiguous candidate from their own party, they expected the candidate to lean significantly in their own direction, instead of implementing a policy at the center of the candidate’s ambiguous platform.” In aggregate, a heterogenous audience behaving in this way may collectively prefer a more ambiguous candidate.

Similar dynamics could suggest why people may want to avoid collecting information when they think the implications may be unpleasant. For example, those nervous that a favored politician is not performing well may avoid informative news sources. More broadly, if one one cares a lot about reaching a particular conclusion, learning more may lead to an unacceptable risk.

Attribution and downward spirals Suppose an agent repeatedly chooses how much to invest in his success, and then success is driven by effort and luck. Those who perform poorly early in life may conclude that success is driven by luck, inducing them to exert even less effort in the future. This can create a dynamic process where those who are unlucky early in life perpetually exert low effort.²⁸

²⁷Perhaps an opposite effect applies to generally disliked politicians. For example, my reading of people’s evaluation of Hilary Clinton’s ideology is that many more left-wing democrats persuaded themselves that she is very centrist, while centrist democrats and conservatives seemed to genuinely think she is extremely liberal.

²⁸See <https://www.youtube.com/watch?v=hIw7oeZKpZc>.

Microfounding the v function; What happens next? Another way to extend the model would be to endogenize the v function. In the context of ability, people may want to think they are high ability to better convince others that they are capable (Trivers, 2000). A similar principle could hold in the over-precision notion of overconfidence supported by Ortoleva and Snowberg (2015): if people share their beliefs and want to be listened to or persuade others to move closer to their viewpoint, there is an incentive to convince others that one's beliefs are very precise.

While it does not lack empirical grounding, the directional motive driving the \mathcal{PN} application – the desire to think highly of certain political leaders – has less obvious theoretical origins. One possibility is a general tendency to defer to authority, which can promote social cohesion.

In either application, a natural next step would be to combine the model of belief formation here with either an endogenous directional motive, or more analysis of decisions made after beliefs are formed. Hopefully a rigorous and tractable formulation of the intermediate stage of belief formation provided here makes these directions plausible.

Appendix

Proof of proposition 1 Take any $0 < w_v^1 < w_v^2$, which both lead to a unique optimal conclusion. Let $\tilde{\theta}^1$ be the optimal conclusion at w_v^1 , and $\tilde{\theta}^2$ the optimal conclusion at w_v^2 . Let a^1 and v^1 be the accuracy and directional value associated with conclusion $\tilde{\theta}^1$, and the a^2 and v^2 the corresponding terms for $\tilde{\theta}^2$.

To show that $v^1 \leq v^2$ and $a^1 \geq a^2$, it is sufficient to show that any other pair of changes leads to a contradiction.

For $\tilde{\theta}^1$ to be an optimal conclusion under w_v^1 , the objective function evaluated at $\tilde{\theta}^1$ must be at least as high as $\tilde{\theta}^2$:

$$w_v^1 v^1 + w_a a^1 \geq w_v^1 v^2 + w_a a^2 \quad (16)$$

Similarly, for $\tilde{\theta}^2$ to be an optimal assessment:

$$w_v^2 v^2 + w_a a^2 \geq w_v^2 v^1 + w_a a^1 \quad (17)$$

If $v^1 \leq v^2$ and $a^1 \leq a^2$ and at least one of the inequalities is strict, then (16) can't hold. If $v^1 \geq v^2$ and $a^1 \geq a^2$ and one of the inequalities is strict, then (17) can't hold.

The last case to rule out is $v^1 > v^2$ and $a^1 < a^2$. The intuition to show is that if the loss associated with going from v^1 to v^2 in order to get the gain of a^1 to a^2 is worth it under weight w_v^2 , it must also be worth it under w_v^1 . Formally, we can rearrange (16) to:

$$\begin{aligned} w_v^1(v^1 - v^2) &\geq w_a(a^2 - a^1) \\ \frac{w_v^1}{w_a} &\geq \frac{a^2 - a^1}{v^1 - v^2} \end{aligned}$$

But (17) (under the assumption that $v^1 > v^2$ and $a^1 < a^2$, hence $v^2 - v^1$ is negative and dividing

by this flips the inequality) requires:

$$w_v^2(v^2 - v^1) \geq w_a(a^1 - a^2)$$

$$\frac{w_v^2}{w_a} \leq \frac{a^1 - a^2}{v^2 - v^1} = \frac{a^2 - a^1}{v^1 - v^2} \leq \frac{w_v^1}{w_a}$$

which contradicts $w_v^1 < w_v^2$.

So, it must be the case that $v^1 \leq v^2$ and $a^1 \geq a^2$. The proof for changing w_a follows an identical logic. ■

Proof of proposition 3 If $\mu_\theta^B(s) < \theta^*$, then the objective function is strictly increasing in θ for $\theta < \mu_\theta^B(s)$, and decreasing for $\theta > \theta^*$. So, any solution must be in $(\mu_\theta^B(s), \theta^*)$. (And, by the intermediate value theorem, such a solution must exist, though it need not be unique). Conversely, for $\mu_\theta^B(s) > \theta^*$, the objective function is increasing for $\theta < \theta^*$ and decreasing for $\theta > \mu_\theta^B(s)$, and so the solution must be on $(\mu_\theta^B(s), \theta^*)$

To complete the proof, we need to show there is a unique s^* such that $\mu_\theta^B(s) < \theta^*$ for $s < s^*$ and $\mu_\theta^B(s) > \theta^*$ for $s > s^*$. Since $\mu_\theta^B(s)$ is increasing and linear in s , the threshold θ^* corresponds to a s^* which solves:

$$\theta^* = \mu^B(s^*) = \frac{\sigma_0^{-2}\mu_0 + \sigma_\theta^{-2}s^*}{\sigma_0^{-2} + \sigma_\theta^{-2}}.$$

Rearranging gives:

$$s^* = \frac{\theta^*\sigma_\theta^{-2} + \sigma_\epsilon^{-2} - \sigma_\theta^{-2}\mu_0}{\sigma_\epsilon^{-2}} \quad \blacksquare$$

Proof of Proposition 5. It is immediate that the left-hand side of (14) is strictly positive. This ratio on the right-hand side simplifies to $\frac{\sigma_s(g)}{\sigma_s(b)} e^{(\sigma_s(g)^{-2} - \sigma_s(b)^{-2})(s - \mu_\theta)^2}$. This expression is continuous in s , equal to $\frac{\sigma_s(g)}{\sigma_s(b)}$ at $s = \mu_\theta$, strictly decreasing in $|s - \mu_\theta|$, and goes to zero when $|s - \mu_\theta|$ goes

to infinity. So if $\frac{(1-\pi)\bar{\sigma}_\theta(g)}{\pi\bar{\sigma}_\theta(b)} \geq \frac{\sigma_s(g)}{\sigma_s(b)}$ then the high noise attribution (along with $\tilde{\theta} = \mu_\theta^B(s, b)$) leads to a higher posterior likelihood for all s . If not, there exists two values of s (symmetric around μ_θ) where (14) is met with equality, label these (\underline{s}, \bar{s}) . So, the low noise attribution is chosen for $s \in (\underline{s}, \bar{s})$, and the high noise attribution is chosen for lower or higher signals. ■

Proof of proposition 6 Recall the objective function evaluated at the best low-noise and best high noise assessments is:

$$O(b) = \log \left(\frac{\phi(\alpha\bar{\sigma}_\theta(b))(1-\pi)\phi\left(\frac{s-\mu_\theta}{\bar{\sigma}_s(b)}\right)}{\bar{\sigma}_\theta(b)\bar{\sigma}_s(b)} \right) - \log(Pr(s)) + \alpha(\mu_\theta^B(s, b) + \alpha\bar{\sigma}_\theta(b)^2)$$

$$O(g) = \log \left(\frac{\phi(\alpha\bar{\sigma}_\theta(g))\pi\phi\left(\frac{s-\mu_\theta}{\bar{\sigma}_s(g)}\right)}{\bar{\sigma}_\theta(g)\bar{\sigma}_s(b)} \right) - \log(Pr(s)) + \alpha(\mu_\theta^B(s, g) + \alpha\bar{\sigma}_\theta(g)^2)$$

So the high noise assessment is chosen when $DO \equiv O(b) - O(g) \geq 0$, which simplifies to:

$$DO = \log \left(\frac{\phi(\alpha\bar{\sigma}_\theta(b))(1-\pi)\phi\left(\frac{s-\mu_\theta}{\bar{\sigma}_s(b)}\right)}{\bar{\sigma}_\theta(b)\bar{\sigma}_s(b)} \right) - \log \left(\frac{\phi(\alpha\bar{\sigma}_\theta(g))\pi\phi\left(\frac{s-\mu_\theta}{\bar{\sigma}_s(g)}\right)}{\bar{\sigma}_\theta(g)\bar{\sigma}_s(g)} \right)$$

$$+ \alpha(\mu_\theta^B(s, b) + \alpha\bar{\sigma}_\theta(b)^2) - \alpha(\mu_\theta^B(s, g) + \alpha\bar{\sigma}_\theta(g)^2)$$

$$= k_5 + \log \left(\frac{1-\pi}{\pi} \right) + \alpha(\mu_\theta^B(s, b) - \mu_\theta^B(s, g)) + \log \left(\phi \left(\frac{s-\mu_\theta}{\bar{\sigma}_s(b)} \right) \right) - \log \left(\phi \left(\frac{s-\mu_\theta}{\bar{\sigma}_s(g)} \right) \right)$$

$$= k_5 + \log \left(\frac{1-\pi}{\pi} \right) + \alpha(\mu_\theta^B(s, b) - \mu_\theta^B(s, g)) + \left(\frac{s-\mu_\theta}{\bar{\sigma}_s(g)} \right)^2 - \left(\frac{s-\mu_\theta}{\bar{\sigma}_s(b)} \right)^2 \quad (18)$$

where k_5 collects terms which are not a function of s or π . Equation (18) is quadratic in s . Since $\bar{\sigma}_s(g) > \bar{\sigma}_s(b)$, the quadratic is concave. So, $O(b) - O(g)$ is either always positive, in which case the high noise assessment is always chosen, or it is positive except for the interval between the zeros of $O(b) - O(g)$.

Rather than derive these zeroes (which are too messy to provide insight), note that increasing π increases $O(g) - O(b)$ by a shift which is constant in s . Since this shift is given by $\log\left(\frac{1-\pi}{\pi}\right)$

which has full support on \mathbb{R} , there must be a unique π^* such that there are real roots to (18) if and only if $\pi > \pi^*$. This completes the proof of parts (i)-(ii).

For parts (iii) and (iv), \bar{s} and \underline{s} are both implicitly defined by $O(b) - O(g) = 0$. Implicitly differentiating gives:

$$-\frac{\frac{\partial(O(b)-O(g))}{\partial s}}{\frac{\partial(O(b)-O(g))}{\partial \alpha}} = -\frac{\frac{(b-g)(s-\mu_\theta+\alpha\sigma_\theta^2)}{(b+\sigma_\theta^2)(g+\sigma_\theta^2)}}{\frac{-\sigma_\theta^2(b-g)(s-\mu_\theta+\alpha\sigma_\theta^2)}{(b+\sigma_\theta^2)(g+\sigma_\theta^2)}} = \sigma_\theta^2$$

So, $\frac{\partial \underline{s}}{\partial \alpha} = \frac{\partial \bar{s}}{\partial \alpha} = \sigma_\theta^2 > 0$ and $\frac{\partial \underline{s}}{\partial \alpha} - \frac{\partial \bar{s}}{\partial \alpha} = 0$ ■

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