

## **Professor Matthias Weber** - Université de St Gall

Matthias Weber analyzes how individuals make economic and financial decisions when outcomes are uncertain and the laws governing economic behavior are unknown. These individual decisions usually differ from rational utility maximization assumed in traditional models. He tries to understand to what aggregate outcomes and policy implications such boundedly rational behavior leads in financial markets and the macroeconomy.

In his fundamental research on bubble formation, he shows, for instance, that price bubbles consistently reappear in different market settings, even if the experimental subjects have participated in the same market before. Large cash endowments of participants are the main market condition driving recurring bubbles.

In macroeconomics, his work revolves around non-rational expectations. Expectations of future economic variables (such as inflation or employment) are modeled with an evolutionary learning model. Individuals use simple rules to forecast future variables, such as extrapolating past trends or believing that variables slowly return to long-run fundamentals. However, individuals are not “stupid”: they continuously update which rules they use based on the forecasting performance of these rules in the recent past.

His work on public finance concentrates on the perception of taxes. Classical economics teaches, for example, that it does not matter whether employees or employers are taxed, but this no longer needs to hold true if people do not perceive taxes rationally. His work shows that a tax on the employer's side induces a preference for a larger public sector by employees and increases employees' subjective well-being, a tax on the employee's side increases their labor supply.