Why do Biased Heuristics Approximate Bayes Rule in Double Auctions?

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Abstract

Jamal and Sunder (1996) showed that the median prices in double auctions populated by zero-intelligence (ZI) traders whose trading limits are set by two biased heuristics tend to converge to the same equilibrium as if their trading limits were set by applying Bayes’ Rule. This note provides an analytical explanation of why the repeated use of biased heuristics approximates Bayes rule.

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