(In)attention and Bounded Recall

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Abstract: I consider a flexible model of coordination under incomplete information where actions can be either strategic complements or substitutes and where payoffs feature a rich set of interdependencies. Prior to committing their actions, agents choose the attention to allocate to numerous sources of information. Each source is defined by its accuracy and transparency. The analysis identifies channels that are responsible for inefficiency in the equilibrium allocation of attention. Finally, the results for the case of perfect recall (where each agent remembers the effects of each source of information on posterior beliefs) are contrasted to the case of limited recall (where posterior beliefs are consistent with the equilibrium allocation of attention, but where the agents cannot recall the effect of individual sources of information on posterior beliefs).