- Also "following the crowd" or "herding"

- Example: Choosing a restaurant in an unfamiliar town

you do your research, and plan to go to restaurant A

When you arrive, A is empty and B next door is full

if you believe they have information you don't have, it may be rational to go to B instead of following your own information.

You ask yourself: which restaurant is most likely to be better, given my prior research and given what I believe about information available to the other diners?

Cascade: When people abandon their own information in favor of inferences based on earlier people's actions

- Helps explain certain types of imitation in social settings.

- Cascade: When people abandon their own information in favor of inferences based on earlier people's actions

Other examples:

• fashions and fads,
• voting for popular candidates
• self-reinforcing success of books placed high on best-seller lists
• spread of technological choices by consumers and firms
• …

- Also "following the crowd" or "herding"

-Homework problem 2: The urn is either yellow or blue with probability 1/2.

Yellow jar: 2 yellow balls and 1 blue ball
Blue Jar: 2 blue balls and 1 yellow ball