

# Optimal Menu when Agents Make Mistakes\*

Sergei Mikhailishchev<sup>†</sup>(CERGE-EI)<sup>‡</sup>

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## Abstract

This paper studies a welfare maximization problem with heterogeneous agents. A social planner designs a menu of choices for agents who misperceive either the properties of options or their own preferences. When agents misperceive the true properties of alternatives, it is optimal to limit a menu when the probability of a mistaken choice is moderately high. Additionally, it could be optimal to construct the menu with more distinct alternatives. However, when agents misperceive their own tastes, it is optimal to limit choice only when agents choose randomly, and to propose alternatives that are more similar when there is a greater probability of agents making a mistake.

**Keywords:** Discrete choice, Optimal menu, Bounded rationality, Welfare analyses

**JEL classification codes:** D30, D60, D81, H80

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<sup>†</sup>e-mail: sergei.mikhailishchev@cerge-ei.cz

<sup>‡</sup>CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politických veznu 7, 111 21 Prague, Czech Republic.