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**Attention Effect in Decision Making: The Case of Baltic Investors**
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# Abstract

This research adopts a quasi-natural experimental method in a virtual market simulation to investigate the attention effect among Baltic investors. We define the attention effect as a deviation from rational trading behavior, caused by the allocation of scarce attention when solving a search problem. We expose the participants of the market simulation to an attention-grabbing element in the decision-making environment: a "Hot Stocks" box containing buy recommendations is displayed on the platform. We track whether there are any changes in trading behavior for the hot stocks. We find that on average participants initiated significantly more purchases per hot stock than per any stock, suggesting the presence of an attention effect. In addition, we employ three widely used proxies for investor attention – extreme previous day's returns, abnormal trading volumes and appearance in news – and obtain results that confirm the main findings. We attempt to evaluate the relationship between an investor's experience and their susceptibility to the attention effect and find weak evidence that more experience reduces the susceptibility. However, the results are mixed and better proxies for experience are needed.