Decision-making under ambiguity and its economic implications

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Topics

1. Subjective expected utility – the Savage and Anscombe-Aumann approaches.

2. Ambiguity

   a. The Ellsberg paradox

   b. Axiomatic models of decision-making under ambiguity – Choquet expected utility and max-min expected utility

   c. Axiomatic intertemporal models – recursive multiple priors

3. Applications

   a. Portfolio choice and financial markets

   b. Strategic interaction

Main references

1. I Gilboa, Theory of Decision under Uncertainty, Econometric Society Monograph, Cambridge University Press, 2009. (Primarily chapters 9, 10, 12, 14, 15, 17)

2. D Kreps, Notes on the Theory of Choice, Westview Press, 1988. (Primarily chapters 4, 7, 8, 9)

3. S Mukerji and J-M Tallon, "An Overview of Economic Applications of David Schmeidler's Models of Decision Making under Uncertainty", in Uncertainty in Economic Theory. Essays in Honor of David Schmeidler's 65th Birthday, ed. Gilboa, I., Routledge, London, 2004.

   Also available at <http://ces.univ-paris1.fr/membre/tallon/intro-application3wkgppr.pdf>

4. L Epstein and M Schneider, Ambiguity and asset markets, forthcoming in Annual Review of Financial Economics.

   Also available at <http://people.bu.edu/lepstein/files-research/NBER-Jan20.pdf>