

Lecture 6 Outline

1. The Ellsberg Paradox & the Sure Thing Principle
2. Engineering vs. Economics:
Axioms, Discounting, Detection Error Probabilities, and Multiple Agents.
3. Axioms: Links between Variational Preferences (MMR (2006)), Smooth Ambiguity (KMM (2005)), & Multiplier Preferences (HS (2001)). Alternative definitions of ambiguity aversion.
4. Dynamics. Recursive Preferences, Compound Lotteries & the timing of the Resolution of Uncertainty.
5. Why discount relative entropy?
6. Robust Control in the LQ/PI model. Modified Certainty Equivalence.
7. Hansen, Sargent & Tallarini (1999). Robustness induced precautionary saving. Observational equivalence.
8. Decentralization & the Price of Model Uncertainty.
9. Detection Error Probabilities.