Lecture 7 Outline

1. Why discount relative entropy?

2. Robust Control in the LQ/PI model. Modified Certainty Equivalence.

3. Hansen, Sargent & Tallarini (1999). Robustness induced precautionary saving. Observational equivalence.

4. Decentralization. Review of Asset Pricing in Complete Markets LQ Economies.

5. The Price of Model Uncertainty.

6. Detection Error Probabilities.