

DT.11 : Standard And Alternative Models Of Choice Under Uncertainty.

Javier Lozano Iboez (Universitat de les Illes Balears) 1997.

Resumen

A rule of individual behaviour under uncertainty is clearly crucial for the progress in Economic Theory . The spread of the microfoundations in areas as Macroeconomics or Financial Economics has made the previous statement truer. The standard expected utility model has provided a simple and useful rule with sound rational background. However, many empirical studies have shown systematic behaviour incompatible with what many had accepted as an accurate description of the decision process. Thus, some economists have considered this evidence powerful enough to try to improve the standard model. The issue has also drawn the attention of several researchers in the area of Psychology. This working paper is structured in the following way. The first part consists of a general description of an expected utility model. This is followed by the exposition of the features of the dominant expected utility model, namely the Von Neumann-Morgenstern expected utility model. The second part describes the phenomena that cannot be accounted for by the standard model. It also includes brief descriptions of the alternative models that try to explain these problems. This is followed by some comments about the role of probabilities in the models of choice under uncertainty. The essay concludes with some general final comments.