

M.Sc. Economics

Code:		Type:	M.Sc. 4 th semester lecture series
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Title:	Individual Choice under Uncertainty
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Lecturer:	Mark J. Machina
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ECTS:	3	Contact hours (per semester):	12 á 90 min.
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Semester:	Summer 2010	Frequency of the lecture:	3, 4 or 5 per week
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Dates:	March 22 nd , 2010 until April 9 th , 2010
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Prerequisites:	Masters level microeconomics
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Learning objectives (What are the intended learning outcomes? Which skills will be acquired?):

The goal of this course is to acquire a working knowledge of the classical theory of risk preferences and beliefs, of challenges to this theory, and of theoretical responses to these challenges

Content (Which professional competence and which contents will be imparted?):

- Introduction & Preliminary Concepts
- Expected Utility Risk Preferences under Objective Uncertainty
- Analytics of Risk and Risk Aversion
- Expected Utility Risk Preferences and Probabilistic Beliefs under Subjective Uncertainty
- Applications of the Expected Utility Model
- Assessing Risk Preferences and Beliefs
- Evidence on the Shape of the Utility Function
- Evidence on the Underlying Assumptions of the Classical Model
- Non-Expected Utility Models of Risk Preferences
- Generalized Expected Utility Analysis
- Dynamic Consistency and Intertemporal Choice
- Probabilistic Sophistication
- Non-Probabilistic Models of Risk Preferences and Beliefs
- Almost-Objective Uncertainty
- Robustifying the Classical Model of Risk Preferences and Beliefs

Teaching approach (Description of the learning and teaching methods):

12 two-hour lectures with computer slides, classroom discussion, assigned readings, exam

Workload (Definition of workload (ECTS), divided in pre-modules (e.g. pre-readings), core-modules (contact hours), post-modules (e.g. case studies)):

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M.Sc. Economics

Language of instruction (Information on the language of teaching):

English

Obligatory literature (E.g. scripts, books, articles, cases, papers):

- Machina, M. (2008). "Expected Utility Hypothesis," in *The New Palgrave Dictionary of Economics, 2nd Edition*, Steven N. Durlauf and Lawrence E. Blume (eds.).
- Friedman, M. and L. Savage (1948). "The Utility Analysis of Choices Involving Risk," *Journal of Political Economy* 56, 279-304.
- Pratt, J. (1964). "Risk Aversion in the Small and in the Large," *Econometrica* 32, 122-136.
- Machina, M, and M. Rothschild (2008), "Risk," in *The New Palgrave Dictionary of Economics, 2nd Edition*, Steven N. Durlauf and Lawrence E. Blume (eds.).
- Machina, M. (2008). "Non-Expected Utility Theory," in *The New Palgrave Dictionary of Economics, 2nd Edition*, Steven N. Durlauf and Lawrence E. Blume (eds.).
- Machina, M. (1987). "Choice Under Uncertainty: Problems Solved and Unsolved," *Journal of Economic Perspectives*, Summer 1987.
- Kahneman, D. and A. Tversky (1979). "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica* 47, 263-291.

Additional literature (E.g. books, articles, cases, papers):

- Kreps, D., *A Course in Microeconomic Theory*. Princeton Univ. Press, 1990, Ch. 3
- Varian, H., *Microeconomic Analysis*, 3rd ed. W.W. Norton & Co., 1992, Ch. 11

Mode of examination (Mode of the examinations and tests (e.g. oral or written examination, lecture, homework, papers, class participation):

Written examination

Grading:

Written examination 100%

Special features (E.g. excursion, guest speaker):

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Office hours:

By appointment

Course website: <http://www.econ.ucsd.edu/~mmachina/courses/IHS/IHS.html> and
<https://cecnet.tuwien.ac.at/>