

Economic Theory, Decision Theory and Experimental Economics
Seminar

Dynamic Random Expected Utility

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12:30pm Room 3-E4-SR03 Via Röntgen 1 Milano

Abstract

We study dynamic stochastic choice behavior resulting from agents solving a dynamic decision problem subject to evolving private information. A key new feature of our model is that observed choices are typically history-dependent: Since an agent's past choice behavior reflects his private information, different sequences of past choices may lead to different distributions of current choices. Our main axioms impose discipline on the amount of history dependence that choices can display: We identify simple equivalence classes of past choices that reflect the same private information and thus have the same implications for current choices. Additional axioms allow us to distinguish between two sources of history dependence: randomly evolving tastes vs. gradual learning about fixed but unknown tastes. An agent's observed choices allow for essentially unique identification of his underlying utility process/private information. Finally, we characterize the connection between taste persistence and dynamically correlated choices.