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AWI This Week

Monday, 6. 12. 10

Departmental Seminar

17.15-18.45

AWI 00.010

Paolo Ghirardato, Università di Torino

"Optimal Myopia: An Axiomatic Approach to Bounded Rationality"

Wednesday, 8. 12. 10

Departmental Workshop

17.15-18.45

AWI 00.010

Wendelin Schnedler, University of Heidelberg

"Preferences for Information in Ambiguous Situations"

Departmental Seminar

Paolo Ghirardato

"Optimal Myopia: An Axiomatic Approach to Bounded Rationality"*

We introduce a decision-theoretic characterization of a model (originating in Diasakos [10]) of endogenous bounded rationality due to the presence of costs in foreseeing the structure of a dynamic decision problem. The decision maker is not required to know the entire structure of the problem when making choices. She can think ahead, through costly search, to reveal more of its details. However, the costs of search are not assumed exogenously; they are inferred from revealed preferences through choices.. Thus, bounded rationality and its extent emerge endogenously: as problems become simpler or as the benefits of deeper search become larger relative to its costs, the choices more closely resemble those of a rational agent. For a fixed decision problem, the costs of search will vary across agents. For a given decision maker, they will vary across problems. The model explains, therefore, why the disparity between observed choices and those prescribed under rationality varies across agents and problems. It also suggests, under reasonable assumptions, an identifying prediction: a relation between the benefits of deeper search and the depth of the search. In decision problems with structure that allows the optimal foresight of search to be revealed from choices of plans of action, the relation can be tested on any agent-problem pair, rendering the model falsifiable. Moreover, the relation can be estimated allowing the model to make predictions with respect to how, in a given problem, changes in the terminal payoffs affect the depth of search and, consequently, choices.

* with Theodoros Diasakos

Departmental Workshop

Wendelin Schnedler

"Preferences for Information in Ambiguous Situations"*
(work in progress)

In his thought experiment, Ellsberg famously posits that individuals prefer betting on an urn with known rather than unknown proportions. We examine experimentally whether this reference for information prevails when proportions alone do not describe winning probabilities. We provide conditions under which standard models predict that individuals continue to prefer betting on the urn with known proportions. In contrast to this prediction, we find that many individuals become indifferent between bets on the two urns.

* with Jürgen Eichberger and Jörg Oechssler

Jour Fixe

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

Talks and Research Visits

Andrew Isaak talked on: "East Meets West: an Introduction to Cultural Neuroeconomics" as a guest speaker within Rosemarie Tracy's lecture *Intercultural Studies* at the University of Mannheim, on November 25.

Miscellaneous

The [closing workshop](#) of the graduate program *Goals and Preferences* is taking place on December 12-13. Those interested in getting an invitation for participation please contact christiane.schwieren@awi.uni-heidelberg.de until December 3.

**Editorial deadline for issue 29/2010 of the newsletter:
Wednesday, December 8, 2010, 12 o'clock
newsletter@awi.uni-heidelberg.de**

If you would like to receive the newsletter by email,
please contact the address above.