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## AWI This Week

### Monday, 27.5.13

#### Departmental Seminar

17.15-18.45  
AWI 00.010

Patrick O'Callaghan, University of Queensland  
"Context-Dependence: Uncertainty and Games"

### Tuesday, 28.5.13

#### Economics a & Politics Seminar

14.15-15.45  
AWI 02.036

Nathalie Giger (MZES)  
"Redistribution or the economy? Welfare state attitudes between general beliefs and economic reality"

### Wednesday, 29.5.13

#### Departmental Workshop

17.15-18.45  
AWI 00.010

Florian Kauffeldt, University of Heidelberg  
"Impact of Demand Ambiguity on Product Differentiation and Location Decisions"

## Jour Fix

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.

### Departmental Seminar

Patrick O'Callaghan

"Context-Dependence: Uncertainty and Games"

The Gilboa and Schmeidler (2003) derivation of "Expected Utility maximisation in the context of a game" seeks to explain experimental evidence from the Ultimatum and Dictator Games, where strategies with strictly dominated monetary payoffs are often played. Preferences feature context-dependence, where each context is a belief or conjecture about the strategy of the opponent and, for each context, preferences are defined on a set of alternatives. A problem with their model arises due to the conditions that are needed to obtain a model of linear context -dependence. This rules out the vast majority of perfectly reasonable preferences. In fact, for low dimensions of uncertainty, there are no preferences satisfying the conditions. In the present paper, a nonlinear model of context-dependence that represents a minimal departure from the linear case is derived: hyperplanes are given up for "connected separators". The main theorem is an equivalence between conditions on preferences and the existence of an ordinal utility function with nonlinear context-dependence. Both the strengths and the weaknesses of the nonlinear approach are discussed using simple and familiar examples from choice under uncertainty and game theory. This is work in progress in the sense that, although the model has the potential to provide a preference foundation for the reference-dependent utility function in the Koszegy-Rabin (2006) formalisation of Prospect Theory, the present results only apply to problems with countably many alternatives.

### Departmental Workshop

Florian Kauffeldt

"Impact of Demand Ambiguity on Product Differentiation and Location Decisions"\*

We analyze a Hotelling duopoly game of spatial competition with uniformly distributed consumers in a standard quadratic transportation costs scenario. The novelty of our approach consists of assuming that firms face ambiguity with respect to the exact location of the consumer distribution in a discrete framework. We derive pure strategy subgame-perfect location choices in case of both managers being either optimistic or pessimistic. Furthermore we investigate the influence of optimism and pessimism on product differentiation and contrast our results with an environment of risky firms. We find that an increase of optimism leads to a higher degree of product differentiation.

\*with Boris Wiesenfarth

## Talks and Research Visits

**Zeno Enders** discussed the paper "Macroprudential policy and imbalances in the euro area" from Michal Brzoza-Brzezina at the 44th Konstanz Seminar on Monetary Theory and Monetary Policy on Reichenau, May 14th - May 17th.

## Visitors

Adam Dominiac, assistant professor of economics at *Virginia Tech*, Blacksburg, U.S., is staying for a research visit with Jürgen Eichberger and Peter Dürsch, May 20-25.

John Quiggin from the University of Queensland was visiting Jürgen Eichberger on May 20-22 for joint research.

**Editorial deadline for issue 13/2013 of the newsletter:  
Wednesday, May 29, 2013, 12 o'clock  
[newsletter@awi.uni-heidelberg.de](mailto:newsletter@awi.uni-heidelberg.de)**

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