SOURCES OF UNCERTAINTY AND SUBJECTIVE PRICES

Veronica Cappelli
HEC Paris

Simone Cerreia-Vioglio
Università Bocconi and IGIER

Fabio Maccheroni
Università Bocconi and IGIER

Massimo Marinacci
Università Bocconi and IGIER

Stefania Minardi
HEC Paris

Abstract
We develop a general framework to study source-dependent preferences in economic contexts. We behaviorally identify two key features. First, we drop the assumption of uniform uncertainty attitudes and allow for *source-dependent attitudes*. Second, we introduce *subjective prices* to compare outcomes across different sources. Our model evaluates profiles source-wise, by computing the source-dependent certainty equivalents; the latter are converted into the unit of account of a common source and then aggregated into a unique evaluation. By viewing time and location as instances of sources, we show that subjective discount factors and subjective exchange rates are emblematic examples of subjective prices. Finally, we use the model to explore the implications on optimal portfolio allocations and home bias. (JEL: D11, D81)

Keywords: source preference, source-dependent uncertainty attitudes, subjective prices, competence hypothesis, home bias.

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E-mail: veronica.cappelli@hec.edu (Cappelli); simone.cerreia@unibocconi.it (Cerreia-Vioglio); fabio.maccheroni@unibocconi.it (Maccheroni); massimo.marinacci@unibocconi.it (Marinacci); minardi@hec.fr (Minardi)