POOD SCARES IN AN UNCERTAIN WORLD

Robert G. Chambers  
University of Maryland, College Park

Tigran A. Melkonyan  
University of Exeter

Abstract
We develop a model that explains the stylized facts of food scares: an immediate and sharp decline in consumption of the product followed by a slow and frequently partial recovery of demand after the scare passes. The model is used in conjunction with the natural experiment afforded by the “mad-cow” crisis to elicit empirical information on decisionmakers’ perception of uncertainty. Our theoretical and quantitative results suggest that observed behavior is consistent with sharp changes in beliefs and the presence of Knightian uncertainty, as measured by the degree of imprecision in our model. (JEL: D82)