DISCRIMINATING BETWEEN MODELS OF AMBIGUITY ATTITUDE: A QUALITATIVE TEST

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Abstract
During recent decades, many new models have emerged in pure and applied economic theory according to which agents' choices may be sensitive to ambiguity in the uncertainty that faces them. The exchange between Epstein (Econometrica 2010) and Klibanoff et al. (Econometrica 2012) identified a notable behavioral issue that distinguishes sharply between two classes of models of ambiguity sensitivity that are importantly different. The two classes are exemplified by the -MEU model and the smooth ambiguity model, respectively; and the issue is whether or not a desire to hedge independently resolving ambiguities contributes to an ambiguity averse agent's preference for a randomized act. Building on this insight, we implement an experiment whose design provides a qualitative test that discriminates between the two classes of models. Among subjects identified as ambiguity sensitive, we find greater support for the class exemplified by the smooth ambiguity model; the relative support is stronger among subjects identified as ambiguity averse. This finding has implications for applications which rely on specific models of ambiguity preference. (JEL: C91, D01, D03, D81, G02)

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