

CES LECTURES

Professor Asen Kochov

University of Rochester

Gives a series of lectures on

Recursive Utility: Theory and Applications

- 1 Decision-theoretic foundations and experimental evidence
- 2 Recursive utility and the folk theorem
- 3 Recursive utility and asset prices

Dates: Tuesday, 03/06/2025, 10:15 – 11:45

Wednesday, 04/06/2025, 14:15 – 15:45

Tuesday, 10/06/2025, 10:15 – 11:45

Location: CES, Schackstr. 4, 2nd floor, seminar room (214)

Registration for PhD and MQE students: For an official recognition and confirmation of participation of the lecture in your transcript, registration at My ECONPAS the CES Lectures is mandatory. Please adhere to the registration deadline for this course as no registration is possible after this date.

If you cannot register at MyECONPAS please contact the MGSE PhD Office mgse-phd@econ.lmu.de.

RECURSIVE UTILITY: THEORY AND APPLICATIONS

Lecture 1: decision-theoretic foundations and experimental evidence

Lecture 2: recursive utility and the folk theorem

Lecture 3: recursive utility and asset prices

Description

The course will introduce students to the study of recursive preferences and their applications. Lecture 1 will focus key decision-theoretic ideas, including: disentangling risk aversion from the elasticity of intertemporal substitution, correlation and ambiguity aversion, and preferences for the timing of resolution of uncertainty. Experimental and field evidence will be discussed, as well as specific models such as Epstein-Zin preferences and the maxmin and risk-sensitive models of ambiguity aversion. Lecture 2 will examine the implications of recursive preferences in strategic contexts and the folk theorem, in particular. Lecture 3 will discuss asset-pricing implications.

Reading List

Lecture 1

T. Strzalecki. Temporal resolution of uncertainty and recursive models of ambiguity aversion. *Econometrica*, 81(3):1039–1074, 2013

A. Kochov. Time and No Lotteries: An Axiomatization of Maxmin Expected Utility. *Econometrica*, 83(1):239–262, 2015

D. K. Backus, B. R. Routledge, and S. E. Zin. Exotic preferences for macroeconomists. In *NBER Macroeconomics Annual*, volume 19, pages 319–390. MIT Press, 2004

B. Miao and S. Zhong. Comment on “Risk preferences are not time preferences”: Separating risk and time preference. *American Economic Review*, 105(7):2272–2286, 2015

L. G. Epstein, E. Farhi, and T. Strzalecki. How much would you pay to resolve long-run risk? *The American Economic Review*, 104(9):2680–2697, 2014

T. Meissner and P. Pfeiffer. Measuring preferences over the temporal resolution of consumption uncertainty. *Journal of Economic Theory*, 200:105379, 2022

Lecture 2

A. Kochov and Y. Song. Intertemporal hedging and trade in repeated games with recursive utility. *Econometrica*, 91(6):2333–2369, 2023

Lecture 3

H. Ai and R. Bansal. Risk preferences and the macroeconomic announcement premium. *Econometrica*, 86(4):1383–1430, 2018

H. Ai, R. Bansal, H. Guo, and A. Yaron. An Arrow-Pratt theory of preference for early resolution of uncertainty. *Available at SSRN*, 2024

J. Borovička, L. P. Hansen, and J. A. Scheinkman. Misspecified recovery. *The Journal of Finance*, 71(6):2493–2544, 2016

F. Alvarez and U. J. Jermann. Using asset prices to measure the persistence of the marginal utility of wealth. *Econometrica*, 73(6):1977–2016, 2005

J. Y. Campbell. *Financial decisions and markets: a course in asset pricing*. Princeton University Press, 2017. **Chapter 6**