

A Subjective Model of Temporal Preferences

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Abstract

We study preferences for timing of resolution of objective uncertainty in a simple menu choice model with two stages of information arrival. We characterize two general classes of utility representations called linear hidden action representations. The representations can be interpreted as if an unobservable action is taken by the individual (or by the malevolent nature, depending on whether the preference is for early or late resolution of uncertainty) between the two periods.

We illustrate that our general representations allow for a richer class of preferences for timing of resolution of uncertainty than was possible in Kreps and Porteus (1978), and provide a unified framework for studying a variety of well-known preferences in the literature. We show that subjective versions of the class of multi-prior preferences (Gilboa and Schmeidler (1989)) and variational preferences (Maccheroni, Marinacci, and Rustichini (2006)) overlap with the class of linear hidden action preferences exhibiting a preference for late resolution of uncertainty. The costly contemplation model (Ergin and Sarver (2009)) is characterized as a special case of the class of linear hidden action preferences exhibiting a preference for early resolution of uncertainty. A generalization of the Kreps and Porteus (1978) model that allows for preference for flexibility in the sense of Dekel, Lipman, and Rustichini (2001) is also characterized.

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