Econ 429 Decision Making under Risk and Time

Course Description

This is a topics class on decision making under risks and over time. The first part of the class studies decision making under risks and its application to portfolio choice, asset pricing and insurance. The second part studies decision making over time, emphasizing the life-cycle model of consumption and saving, as well as time inconsistency.

Time and Place

MW, 2:30pm - 4pm in Seigle Hall, Room 208.

People and Contact Information

Instructor: Anqi Li, Seigle 389, anqili@wustl.edu, OH TBA
Assistant to instructor: Chih-Han Chen, chenchihhan@wustl.edu, OH TBA

Prerequisites

Econ 4011. Multivariate calculus, optimization, basic statistics.

References

There is no nextbook for this class. Lecture notes are self-contained (“N”). Useful references include:


Grading

Grades will be based on the following courseworks:

- Weekly problem sets: 20%
• One mid-term exam: 35%
• Final exam: 45%

Problem sets are due on Friday. You can work in groups but must turn in individual solutions and mark the people you work with. Usual departmental policies on exam attendance, make-up exams and regrading apply.

Schedule and Reference

W 1: Math review, expected utility theory (N; G §1 )
W 2: Expected utility: theory and evidence (N; G §1)
W 3: Attitude towards risks (N; G §2)
W 4: Change in Risks (G §3)
W 5: Portfolio choice problem (N; G §4)
W 6: Asset pricing (N; G §5)
W 7: Review session
W 8: Arrow-Debreu securities with application in insurance (N; MWG §19)
W 9: Incomplete market (N)
W 10: Prospect theory and applications (N)
W 11: Life-cycle consumption and saving (N; G §15-16 )
W 12: Time inconsistency and self-control (N)
W 13: Review session