Info-Gap Economics: Knightian Uncertainty, Modelling and Policy

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Abstract

We discuss two ideas which are well-known in economics — satisficing and Knightian uncertainty — in the context of info-gap decision theory. We develop the idea of robust-satisficing: a decision-strategy for achieving satisfactory outcome which is robust to severe uncertainty. We discuss both prescriptive and descriptive aspects of info-gap economics.

Prescriptively, we consider a simplified example of macro-economic policy, and develop an explanation of Brainard-like policy selection. We show when nominally sub-optimal policy choice is preferred.

Descriptively, we present the outline of an info-gap explanation of the equity premium puzzle in financial economics.