Subjective Random Discounting and Intertemporal Choice ¤

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Abstract
Intertemporal decision in the real world is not once and for all, but sequentially
takes place. A decision maker seems to prefer narrowing down the currently available
opportunity set to choosing a completely spell-out future plan. However, the standard
model cannot explain this behavior, called *preference for flexibility*.
Our goal is to provide a tractable dynamic model consistent with preference for
flexibility and to apply the resulting model to intertemporal choice problems. The
main result of the paper is an axiomatic foundation of a particular type of preferenceshock
model, called the *random discounting representation*, where a random shock
affects the rate of intertemporal substitution between the current consumption and
the opportunity set for the rest of the horizon.