

Subjective Random Discounting and Intertemporal Choice α

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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.

Keywords: preference for flexibility, intertemporal choice, random discounting, subjective states.

JEL classification: D81, D91, E21.

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