Anticipated Stochastic Choice

Nobuo Koida[*]

This version: September 15, 2014

Abstract

This study axiomatizes an *anticipated stochastic choice (ASC)* representation in the context of menu choice, wherein the decision maker (DM) maximizes the expected utility by controlling the *mood*, i.e., the probability measure over *mental states* that govern the ex post stochastic choice of alternatives. A key prerequisite for the axiomatization is that the DM identifies randomizations between two menus with *perfectly correlated mixtures* of these menus; that is, the mixture of the two menus includes only mixtures of specific pairs of alternatives. ASC representations exhibit a preference for commitment to singleton menus and do not necessarily satisfy extremeness. The essential uniqueness of an ASC representation enables us to define an index of the DM's ability to control the ex post choice. Trembling hands and choice with limited attention are special cases of ASC. Furthermore, ASC representations accommodate potentially stochastic choice anomalies, such as the attraction effect, cyclical choice, and Allais paradox.

Keywords: preferences over menus, stochastic choice, trembling hands, choice with limited attention

JEL Classification Numbers: D81

---

[*]Faculty of Policy Studies, Iwate Prefectural University, 152-52 Aza-Sugo, Takizawa, Takizawa-mura, Iwate 020-0193, Japan. E-mail: nobuo@iwate-pu.ac.jp, TEL: +81-19-694-2814, FAX: +81-19-694-2701