

# Entrepreneurial Choice and Knightian Uncertainty\*

TAKANORI ADACHI<sup>†</sup>

TAKAO ASANO<sup>‡</sup>

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## Abstract

This paper studies the effects of Knightian uncertainty on entrepreneurial choice in the Evans and Jovanovic (1989) model. It is shown that ambiguity aversion makes it less likely for an individual to become an entrepreneur. Furthermore, we show that an increase in ambiguity *reduces* the amount of investment while an increase in risk *increases* the amount of investment. In the presence of borrowing constraints, the *less* ambiguity averse the individual is, the more likely his or her investment is to be constrained.

Keywords: Entrepreneurship; Knightian Uncertainty; Ambiguity Aversion.

JEL classification: D81; L26.

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<sup>†</sup>School of Economics, Nagoya University, Chikusa, Nagoya 464-8601, Japan. E-mail: adachi.t@soec.nagoya-u.ac.jp

<sup>‡</sup>Faculty of Economics, Okayama University, 3-1-1 Tsushima-Naka, Kita-Ku, Okayama City, Okayama 700-8530, Japan. E-mail: asano@e.okayama-u.ac.jp