Entrepreneurial Choice and Knightian Uncertainty*

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This version: April 22, 2010

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.

*Comments are welcome. We are grateful to financial support from the Ministry of Education, Science, Sports and Culture, Grant-in-Aid for Young Scientists (B) (21730184) (Adachi) and Grant-in-Aid for Scientific Research (B) (2133004599) and (C) (20539005) (Asano).
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