

Two-Stage-Partitional Representation and Dynamic Consistency¹

Suguru Ito

January 21, 2015

Abstract

In this paper, we study an individual who faces a three-period decision problem when she accepts the partitional signal twice at the different times. Adding a new axiom to a Third-Order Belief Representation in Takeoka (2007), we characterize a Two-Stage-Partitional Representation, which is more useful in the world because the signals become partition. Moreover, using a Two-Stage-Partitional Representation, we show the subjective version of Dynamic Consistency among two different preference relations over menus before and after the first signal in a dynamic setting different from a static setting in Riella (2013), while we can't show such Dynamic Consistency using a Third-Order Belief Representation in Takeoka.

Keywords: Subjective State Space, Preference for Flexibility, Partitional Signal, Two-Stage-Partitional Representation, Dynamic Consistency

JEL classification: D81

¹Graduate School of Economics, University of Tokyo.
E-mail: suguru0620@gmail.com.