Preferences for Randomization and Anticipation

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Abstract

In real life, people may make decisions in a randomized way if their options are almost indifferent, or if their decisions are stuck in a rut. This paper studies a model of anticipated utility in which a decision maker has a preference for randomization. The model captures a subjective belief of the effect of a randomization, and then analyzes the role of randomization in individual decision-making. The focus of this paper is to study the optimal anticipation with a randomization in intertemporal choices. Dynamic randomization can affect not only today's decision-making, but also future choice opportunities. The main representation is the model of dynamic preferences for randomization in infinite-horizon decision problems. We axiomatize a model of dynamic random anticipation, which captures the optimal randomization over infinite-horizon decision problems. The resulting behavior is the optimal random choice over a menu at each time.