

# Welfare Implications of Mitigating Investment Uncertainty\*

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## Abstract

This paper explores the welfare implications of mitigating investment uncertainty in the context of Easley and O'Hara (2009) [Ambiguity and Nonparticipation: The Role of Regulation. *Review of Financial Studies* 22(5), 1817–1843]. While one may expect welfare gains to be had by encouraging participation in financial markets by ambiguity-averse investors, we formally show that it hurts other investors and is not Pareto-improving without appropriate income transfers.

**Keywords:** Ambiguity, Heterogenous agents, Uncertainty, Welfare effects.

**JEL Classification Numbers:** D81, G11, G18.

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