

Institut für Statistik

**Vortrag**

Donnerstag, 5. Juni 2025, 14:00 Uhr

NT03128L (Seminarraum MBI), Kopernikusgasse 24, 3. OG.

# **Equilibrium control theory for Kihlstrom-Mirman preferences in continuous time**

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Abstract:

Introduced in 1974, Kihlstrom-Mirman preferences represent a multi-attribute generalization of the standard (univariate) expected utility theory. The main appeal of this class of utilities is that, by separating the choice of the elasticity of intertemporal substitution and risk aversion, they allow to disentangle attitudes towards time and risk. We discuss in detail how this approach differs from other classes of preferences exhibiting a similar feature (for instance, Epstein-Zin-Weil recursive utility). However, when solving intertemporal choice problems, the peculiar construction of Kihlstrom-Mirman preferences induces dynamic inconsistency - that is, the dynamic programming principle fails to hold. Our main contribution is therefore to address this challenge. In doing so, we provide a formal template to address the time-inconsistency of Kihlstrom-Mirman preferences in Markovian settings by means of equilibrium control theory. As an application, we study a consumption-investment problem for an agent with constant relative risk aversion and constant elasticity of substitution.

Link zum Working Paper: <https://arxiv.org/abs/2407.16525>

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