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THE SUBJECTIVE DISCOUNT FACTOR AND RISK AVERSION, LOSS AVERSION AND UNCERTAINTY

Abstract:

The author derives a new concept model of discounting utility function or consumption on a theoretical basis. He surveys the formation and evolution models of the subjective discount factor. This paper focuses on exponential and hyperbolic discounting utility model, which belongs to the mainstream of economics for its simplicity. The aim of this paper is to add to the generalized hyperbolic model parameters representing the effect of uncertainty in the intertemporal decision making. The paper presents connection with the neoclassical and hedonic approach that the parameters introduced in the model are mainly psychological factors (risk aversion, loss aversion, etc.). By using the final model can explain why subjective discount factor is increasing, although subjective discount rate (patience consumption) is positive and also increasing.

Keywords:

Subjective discount factor, risk aversion, loss aversion,

JEL Classification: D90, D11