ABSTRACT

Since Keynes (1921) and Knight (1921) we know that uncertainties usually do not come with probabilities ("ambiguity"). The first half of this lecture presents history, explaining the importance of ambiguity throughout but its popularity rising only since the 1990s.

As yet, ambiguity attitudes could only be measured for artificial events such as secretized Ellsberg urns. The second half of this lecture shows how it can be done for ALL events, including the application-relevant ones. (So, the events relevant in your own domain of expertise …). We no more need to ask finance experts about gambles on secretized urns, but we only ask them about market uncertainties. In strategic situations, we only ask about strategy choices of opponents. This greatly enhances external validity and the motivations of clients. We explain the main underlying theoretical concept: we can construct hedges against unknown beliefs just as finance hedges against unknown payoffs. Our results are valid under almost all existing ambiguity theories. We report a simple experimental implementation.