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Characterization of Variation Averse Preferences by Present Value

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ABSTRACT

As a model for intertemporal decision making, Gilboa (1989) introduced variation aversion and provided its characterization through preference conditions. In this paper, it is shown that the same model can easily be characterized by conditions based on present value. Being a familiar and intuitive concept, present value framework simplifies the existing characterization. Our result also makes the model testable by econometric methods.

KEYWORDS Present Value; Intertemporal Choice; Discounted Utility; Variation Aversion

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