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Sudden stops, time inconsistency, and the duration of sovereign debt Springer Nature
 We empirically implement a dynamic structural model of labor supply and welfare program participation for never-married mothers with potentially time-inconsistent preferences. Using panel data on the choices of single women with children from the NLSY 1979, we provide estimates of the degree of time-inconsistency, and of its influence on the welfare take-up decision. With these estimates, we conduct counterfactual experiments to quantify the utility loss stemming from the inability to commit to future decisions, and the potential utility gains from commitment mechanisms such as welfare time limits and work requirements.
Average Inflation Targeting Russell Sage Foundation
 Master's Thesis from the year 2012 in the subject Economics - Other, grade: 1,3, University of Münster (Institut für Siedlungs- und Wohnungswesen), language: English, abstract: Behavioral economics is a relatively young subdiscipline of economics that has garnered a noticeable amount

of attention especially over the last two decades. It seeks to utilize findings from other scientific fields, especially psychology, in order to enhance the plausibility of neo-classical (mainstream) economic models without replacing or abandoning them . The inclusion of psychology into economic thinking is nothing new, however. Instead, it can be traced back to the period of the classical economists of the 18th century. While lacking the rigorous formal approach of today's behavioral economists, the conception of the human nature and human decision making was surprisingly sophisticated at the time. For instance, time-inconsistent preferences, which are an important aspect of behavioral economics, have already been examined by David Hume and Adam Smith . Other phenomena, including loss aversion and overconfidence, have also been discussed by classical economists. This thesis has the following structure: Chapter 2 explains a general, quite powerful model of dynamically inconsistent preferences. Special emphasis is placed on real-life examples as well as welfare analysis, including political implications. As we move along, we will constantly compare our findings to the results we would obtain from the neoclassical paradigm. The next two chapters take a closer look at time inconsistencies in the realm of financial decision making. We will examine the behavior of individuals regarding credit card debt in chapter 3, which

will require the introduction of another model that is more specifically tailored towards the credit card market. However, the foundations laid out in chapter 2 will be helpful in understanding this second model of inconsistency. Chapter 3 will also discuss recent legislation in credit card markets in the US. In chapter 4, we discuss retirement savings decisions, specifically in the context of the 401(k) retirement plan . After having introduced two models already that explain how people and companies act in certain situations, in the chapter we will discuss several behavioral phenomena that help us explain the motivation behind the decisions of individuals. We will assess the costs and benefits of government interference into the market and the possible measures that might improve the market outcome. Chapter 5 concludes and discusses interesting questions that might be examined further in the future.
Time-Inconsistent Control Theory with Finance Applications GRIN Verlag
 We reformulate the monetary policy model of Barro and Gordon (1983a) by using an extended game with observable delay where the hierarchy of play between the central bank and the private sector is endogenous. This allows us to endogenise the institutional setup wherein the monetary policy game takes place. We show that positive inflation may be observed due to mixed strategies

rather than time inconsistency.

Time-Inconsistency of VaR and Time-Consistent Alternatives International Monetary Fund

Dr. Ainslie examines an elementary human paradox: that we are endangered by our own wishes.

Working Over Time Time-Inconsistent Control Theory with Finance Applications

We study identification of time inconsistency when an agent at time 0 makes an advance commitment, and later at time 1 can revise their choice after possibly receiving additional information. Roughly speaking, we prove that the only data that reject time-consistent expected utility maximization is a time-0 choice that is always strictly dominated at time 1. This holds for rich choice sets; if the complete ranking of alternatives is observed in every period and state; when it is natural to assume additional properties like concavity; and with supplementary cardinal information. However, time inconsistency can be point identified from willingness to pay for different alternatives in both periods, if utility from money is plausibly additively-separable and independent of time-1 information.

Does Time Inconsistency Really Matter? Springer

We analyze two monetary economies - a cash-credit good model and a limited participation model. In our models, monetary policy is made by a benevolent policymaker who cannot commit to future policies. We define and analyze Markov equilibrium in these economies. We show that there is no time inconsistency problem for a wide range of parameter values

Dynamic Preference "Reversals" and Time Inconsistency Cambridge University Press

Many of our most urgent national problems suggest a widespread lack of concern for the future. Alarming economic conditions, such as low national savings rates, declining corporate investment in long-term capital projects, and ballooning private and public debt are matched by such social ills as diminished educational achievement, environmental degradation, and high rates of infant mortality, crime, and teenage pregnancy. At the heart of all these troubles lies an important behavioral phenomenon: in the role of consumer, manager, voter, student, or parent, many Americans choose inferior but immediate rewards over greater long-term benefits. Choice Over Time offers a rich sampling of original research on intertemporal choice—how and why people decide between immediate and delayed consequences—from a broad range of theoretical and methodological perspectives in philosophy, political science, psychology, and economics. George Loewenstein, Jon Elster, and their distinguished colleagues review existing theories and forge new approaches to understanding significant questions: Why do people seem to "discount" future benefits? Do individuals use the same decision-making strategy in all aspects of their lives? What part is played by situational factors such as the certainty of delayed consequences? How are decisions affected by personal factors such as willpower and taste? In addressing these issues, the contributors to Choice Over Time address many social, economic, psychological, and personal time problems. Their work demonstrates the predictive power of short-term preferences in behavior as varied as addiction and phobia, the effect of prices on consumption, and the dramatic rise in debt and decline in savings. Choice Over Time provides an essential source for the most recent research and theory on intertemporal choice, offering new models for time preference patterns—and their aberrations—and presenting a diversity of potential solutions to the problem of "temporal myopia."

The time inconsistency of monetary policy with inflation persistence

The purpose of this short paper is to show that inflation "band" targeting can solve the "time inconsistency" problem that exists under inflation "point" targeting by setting a relevant target range. Moreover, we show that inflation band targeting has the following two advantages, besides allowing for supply-shock measurements. 1) It can produce output beyond natural levels, by setting the inflation rate within a target range and creating unexpected inflation. 2) It can mitigate inflation bias and help achieve a socially desirable inflation rate.

Modeling, Stochastic Control, Optimization, and Applications

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We show that VaR (value-at-risk) is not time-consistent and discuss examples where this leads to dynamically inconsistent behavior. Then we propose two time-consistent alternatives to VaR. The first one is a composition of one-period VaR's. It has some of the theoretical drawbacks of static VaR and should be used with care in situations where financial positions are not normally distributed or in models with complex dependence structures. The second one is a composition of average VaR's. It is a time-consistent coherent risk measure and provides good results in any situation.

The Issue of Time Inconsistency Revisited as an Extended Game

We study the sovereign debt duration chosen by the government in the context of a standard model of sovereign default. The government balances off increasing the duration of its debt to mitigate rollover risk and lowering duration to mitigate the debt dilution problem. We present two main results. First, when the government decides the debt duration on a sequential basis, sudden stop risk increases the average duration by 1 year. Second, we illustrate the time inconsistency problem in the choice of sovereign debt duration: governments would like to commit to a duration that is 1.7 years shorter than the one they choose when decisions are made sequentially.

An Investigation of Time Inconsistency and Optimal Policy Formulation in the Presence of Rational Expectations Using the National Institute's Model 7

This volume collects papers, based on invited talks given at the IMA workshop in Modeling, Stochastic Control, Optimization, and Related Applications, held at the Institute for Mathematics and Its Applications, University of Minnesota, during May and June, 2018. There were four week-long workshops during the conference. They are (1) stochastic control, computation methods, and applications, (2) queueing theory and networked systems, (3) ecological and biological applications, and (4) finance and economics applications. For broader impacts, researchers from different fields covering both theoretically oriented and application intensive areas were invited to participate in the conference. It brought together researchers from multi-disciplinary communities in applied mathematics, applied probability, engineering, biology, ecology, and networked science, to review, and substantially update most recent progress. As an archive, this volume presents some of the highlights of the workshops, and collect papers covering a broad range of topics.

Imperfect Policy Formation and Time Inconsistency

"We analyze the setting of monetary and nonmonetary policies in monetary unions. We show that in these unions a time inconsistency problem in monetary policy leads to a novel type of free-rider problem in the setting of nonmonetary policies, such as labor market policy, fiscal policy, and bank regulation. The free-rider problem leads the union's members to pursue lax nonmonetary policies that induce the monetary authority to generate high inflation. The free-rider problem can be mitigated by imposing constraints on the nonmonetary policies, like unionwide rules on labor market policy, debt constraints on members' fiscal policy, and unionwide regulation of banks. When there is no time inconsistency problem, there is no free-rider problem, and constraints on nonmonetary policies are unnecessary and possibly harmful"--Federal Reserve Bank of Minneapolis web site.

Optimal Taxation Over Time and the Time Inconsistency Problem

Time-Inconsistent Control Theory with Finance Applications Springer Nature

Some Notes on Time-inconsistency and Rawls' Maximum Criterion

This paper analyses time-inconsistency problems related to the exchange rate channel of monetary policy. Within a simple open-economy macroeconomic model, where the exchange rate is the only forward-looking variable, we show that a difference emerges between optimal policy under discretion and under commitment. Moreover, the nature of the time-inconsistency problem resembles that resulting from standard New Keynesian models: when cost-push shocks occur, the exchange rate channel gives rise to excessive output stabilisation and insufficient inertia in

monetary policy under a discretionary policy.

The Time Inconsistency Issue in Macroeconomics

Abandoning an objective function with multiple targets and adopting a single mandate can be an effective way for a central bank to overcome the classic time-inconsistency problem. We show that the choice of a particular single mandate depends on an economy's level of trade openness and the credibility of the central bank. We begin with reduced form empirical results which show that as central banks become less credible they are more likely to adopt a pegged exchange rate, and crucially, the tendency to peg depends on trade openness. Then in a model where the central bank displays "loose commitment" we show that as central bank credibility falls, they are more likely to adopt either an inflation target or a pegged exchange rate. A relatively closed economy would adopt an inflation target to overcome the time-inconsistency problem, but a highly open economy would prefer an exchange rate peg.

More on the time inconsistency of optimal monetary policy

This book is devoted to problems of stochastic control and stopping that are time inconsistent in the sense that they do not admit a Bellman optimality principle. These problems are cast in a game-theoretic framework, with the focus on subgame-perfect Nash equilibrium strategies. The general theory is illustrated with a number of finance applications. In dynamic choice problems, time inconsistency is the rule rather than the exception. Indeed, as Robert H. Strotz pointed out in his seminal 1955 paper, relaxing the widely used ad hoc assumption of exponential discounting gives rise to time inconsistency. Other famous examples of time inconsistency include mean-variance portfolio choice and prospect theory in a dynamic context. For such models, the very concept of optimality becomes problematic, as the decision maker's preferences change over time in a temporally inconsistent way. In this book, a time-inconsistent problem is viewed as a non-cooperative game between the agent's current and future selves, with the objective of finding intrapersonal equilibria in the game-theoretic sense. A range of finance applications are provided, including problems with non-exponential discounting, mean-variance objective, time-inconsistent linear quadratic regulator, probability distortion, and market equilibrium with time-inconsistent preferences. Time-Inconsistent Control Theory with Finance Applications offers the first comprehensive treatment of time-inconsistent control and stopping problems, in both continuous and discrete time, and in the context of finance applications. Intended for researchers and graduate students in the fields of finance and economics, it includes a review of the standard time-consistent results, bibliographical notes, as well as detailed examples showcasing time inconsistency problems. For the reader unacquainted with standard arbitrage theory, an appendix provides a toolbox of material needed for the book.

Choice Over Time

Experimental tests of dynamically inconsistent time preferences have largely relied on choices over time-dated monetary rewards. Several recent studies have failed to find the standard patterns of time inconsistency. However, such monetary studies contain often discussed confounds. In this paper, we sidestep these confounds and investigate choices over consumption (real effort) in a longitudinal experiment. We pair those effort choices with a companion monetary discounting study. We confirm very limited time inconsistency in monetary choices. However, subjects show considerably more present bias in effort. Furthermore, present bias in the allocation of work has predictive power for demand of a meaningfully binding commitment device. Therefore our findings validate a key implication of models of dynamic inconsistency, with corresponding policy implications.

Time Inconsistency and Financial Decision Making: Theory and Evidence

Time Inconsistency and Endogenous Borrowing Constraints

Inflation and Grand Corruption: Still More on the Time-inconsistency of Monetary Policy