

# *Models of Risk and Uncertainty: What is the Future?*

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# Structural Economic Models of Risk and Uncertainty

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- investor preferences including beliefs and information
- exposure to macroeconomic risk - long run and short run
- market structure - access and transaction costs
- equilibrium

## Challenges to existing models

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- empirical work - puzzles - etc
- behavior challenges
- credible models of beliefs? - pushed rational expectations too far?  
learning model selection etc.
- frictions, transaction costs, inertia etc.

## Why do we care?

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- sources of parameter values for dynamic economic models
- welfare assessments about the consequences of exposure to risk
- use forward looking behavior of asset prices to back out investor sentiments or beliefs - requires a valuation model