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Awareness of Unawareness: A Theory of Decision Making in the Face of Ignorance*

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Abstract

In the wake of growing awareness, decision makers anticipate that they might acquire knowledge that, in their current state of ignorance, is unimaginable. Supposedly, this anticipation manifests itself in the decision makers' choice behavior. In this paper we model the anticipation of growing awareness, lay choice-based axiomatic foundations to a subjective expected utility representation of beliefs about the likelihood of discovering unknown consequences, and assign utility to consequences that are not only unimaginable but may also be nonexistent. In so doing, we maintain the flavor of reverse Bayesianism of Karni and Vierø (2013, 2015).

Keywords: Awareness, unawareness, ignorance, reverse Bayesianism, utility of undescrivable consequences

JEL classification: D8, D81, D83

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