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**Lecture #4 Notes**

*Temporal Discounting*

* Preference for **Small Sooner Reward** (**SSR**) vs. **Longer Later Reward** (**LLR**)
* Indifference points (in time)
  + Adjust variables to find indifference point
* Behavioral effect

*Hyperbolic Discounting*

* A “time-inconsistent” model (“dynamically inconsistent”)
* Utility decays by a decreasing percentage over time
* **Hyperbolic function** 1 / (1 + kD), where *D* is decay and *k* is a free parameter.

*Hyperbolic vs. Exponential*

* Exponential changes by a constant percentage over time
* For hyperbolic, there is no constant change over time
  + Less discounting over time (1% per month but 0.75, 0.50%, etc..).