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Arbitrage choice theory

This paper is comparing the standard version of rational choice theory with Nau’s arbitrage choice theory (ACT). From the paper I concluded that rational choice theory is how an individual makes choices whereas the ACT looks at a group of people and how they will make decisions depending on each others actions.

The ACT uses a few similar things as rational choice theory such that people want to maximize utility, maintain a competitive equilibrium, and they must expect their beliefs to be updated according to Bayes theorum.

The ACT does differ in many ways however the main points being: utility and probability functions do not need to be unique, Allais paradox does not happen, and utility functions do not need to be state dependent.

From the paper I believe that the purpose of this new model is to show that using more agents do not see the whole picture but when you look at many agents together you can derive a more accurate model. However, there are limits to this model. There are some things that just cannot be known so the model will be incomplete.