Optimization Criteria in Dynamic Operations Models: Discounting and Risk Neutrality

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There is overwhelming evidence that people are sensitive to risk, but stochastic optimization models for supply chain management usually presuppose a risk-neutral decision maker. This talk concerns the representation of preferences in dynamic stochastic models. How should joint preferences for risk and timing be represented? This talk (a) explains why the usual representation in economics and finance is self-contradictory, and (b) sketches the effects of an alternative approach in models of the coordination of operational and financial decisions.

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