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Research Announcement

Uninsurable Risks: Uncertainty in Production, the Value of Information and Price Dispersion

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Abstract

This article digresses over the interaction of uncertainty with the firm's optimal decisions in a simple framework: a standard price-taking (short-run restricted) single-input and output unit, subject to the interaction with a zero-mean Bernoulli lottery. The firm is always considered an expected profit-maximizing entity. We inspect the consequences of exogenous uncertainty on the optimal allocations and on its "mean-(and)variance" valuation position. On one hand, we contrast the effect of different sources of uncertainty on the producer's problem – input and output prices and quantities. On the other, we analyse the impact of ex-post flexibility of the decision variables.

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