

The paper titled “Fundamental uncertainty, portfolio choice and liquidity preference theory” discusses Keynesian uncertainty from a boundedly rational approach, in order to get an “operational” explanation of how it may affect financial markets.

The first part of the paper discusses the works of authors connecting Keynes’s discussion of behaviour under uncertainty to approaches to individual decision making that are critic of the Bayesian approach. This section is a bit confused as the author tries to assess a number of very different contributions. I would ask the author to limit his/her survey of the alternative interpretations to the main question addressed in the paper, that is, to the alleged necessity to avoid making new assumptions (such as ambiguity aversion) in order to represent Keynesian uncertainty. This point is to be made clearer in the first part of the paper. With respect to this issue I find it strange that no reference is made to Ellsberg, who clearly discusses an instance of Keynesian uncertainty. Would the author argue that ad hoc boundedly rational agents are a correct representation for Ellsberg’s paradox?

The second part of the paper introduces a model with a boundedly rational representative agent who react to a limited knowledge of the environment (termed selfconsciousness). I do not have the capability to understand if the details are correct. I cannot judge if there is anything original in the paper which add to the referred literature. However I am a bit surprised that limited reference to behavioral finance models is made in locating the author’s contribution. One could argue that most of modern behavioral finance is Keynesian in spirit. I would ask the author to comment for instance on the relationships between his/her approach and, for instance, Barberis, Huang and Santos (QJE 2001) or part of the work reviewed in Barberis and Thaler (Handbook of the Ecs of Finance, 2003). This would make the point of the paper more compelling as the idea of BHS is to model an economy in which the representative agent solve a portfolio problem when loss aversion is admitted. The comparison between two different kinds of deviation from rational behavior would help the reader understand the main point of the paper.