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Subjective Probability in Behavioral Economics and Finance: A Radical Reformulation

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Behavioral finance depends intimately on the notion of subjective probability, which has been universally treated as one of the two forms of probability. A substantial body of work and recent experimental results show conclusively that this approach is invalid: subjective and objective probabilities cannot be treated as two sides of the same coin.



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probabilities and uncertainty appraisals, that is, those aspects that have,until now, been called “subjective probabilities.”

Keywords: Subjective probability Decision theory Homo communitatis Probability theory

Notes

1. A formulation of the concepts of intentional action, deliberate action, and community in mathematical formalism may be found in Jeffrey [2010].
2. Poincaré [1905/1970] noted that “axioms are definitions in disguise”; that is, they articulate the basic relationships in a mathematical domain. The principles of homo economicus articulate the domain of behavior. As Putman discusses in his introduction to Ossorio [2012], this does not mean that the principles function as postulates or assumed truths.

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