

A portrait of Lars Peter Hansen, a middle-aged man with short, light-colored hair and glasses, wearing a brown jacket over a light-colored shirt. He is looking slightly to the right of the camera with a neutral expression.

# Lars Peter Hansen: There is More to Uncertainty than Risk

In the latter part of October 2022, Lars Peter Hansen talked to two different alumni groups, one in London and one locally, in Chicago. His talk in London, delivered to a full house of attendees, was part of Chicago Booth's "The Future of Capitalism" series and was titled: "There is More to Uncertainty Than Risk: Implications for Markets and Policy."

Hansen's talk in Chicago was about "The Consequences of Uncertain Climate Change for Markets and Policy" to the Dean's advisory council as part of the Division of the Social Sciences at UChicago during their Fall Meeting. Both talks were similar in content.

Hansen explained the nature of his talks:

"It is rather obvious that we live in a world full of uncertainty. While climate change concerns are pervasive, our fundamental understanding of its possible consequences and outcomes is unknown. How, then, do we effectively design prudent policies that confront the climate change externality while accepting the limits to our understanding?"

At the outset of the COVID-19 pandemic, there was considerable uncertainty as to its likely duration and the effectiveness of alternative policy responses. This left for considerable guesswork on the part of policymakers. More generally, what would be a sensible way to design social and economic policy in the face of this uncertainty?

Terms like 'deep uncertainty' or 'radical uncertainty' often emerge in policy discourse, but how do we make such constructs operational? I find it rewarding to discuss such issues with broad audiences of people who are amenable to addressing such topics systematically and rigorously. Indeed, many of our alumni continue to be intellectually curious and tolerant of more formal thinking.

In my talks, I emphasized the limits of standard risk-based analyses that are typically taught in our microeconomics classes. By drawing on insights from control theory, decision theory, statistics, and applied probability theory, I suggested ways to address uncertainty expressed in broader terms than in standard risk-based analyses and are policy relevant. There is much more research to be done in this area, but the audiences certainly relate to the notion that uncertainty is pervasive, and that its presence should help to shape important decisions, market behavior, and the prudent design of policies in the future."

The 2022 Griffin Applied Economics Incubator was awarded to Lars Peter Hansen for "Policy-making in an Uncertain World." Learn more about the Incubator at [voices.uchicago.edu/griffinincubator](https://voices.uchicago.edu/griffinincubator).

More information about the Incubator to follow this Spring and Summer!