



# A Bayesian Procedure for Decision-Making in Uncertain Economic Environments

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## Abstract

The main characteristic of the modern economic environment is uncertainty, which becomes increasingly profound as time passes. The paper suggests a simple procedure of using the Bayesian approach to decision-making under uncertainty. The Bayesian approach provides a robust and flexible framework that can dynamically incorporate new information, assess the value of further information, and support rational decision-making in uncertain environments. The proposed method is based on the following considerations: each manager has a subjective initial judgment about an event in the future, such as launching a new product or the success of a new project. Can we trust this judgment completely? Probably not - intuition can be unreliable. The world constantly changes, so past experiences may not be relevant. How can we increase the reliability of our decisions? Some form of experiment can be conducted to gather factual data, such as conducting a focus group for the product. However, there is often limited time to conduct numerous experiments, complicating decision-making. Therefore, decisions should be made by combining subjective initial information with the results of a small experiment. The paper gives an example of using this approach to make a marketing decision on whether to launch a new product. It also examines the benefits of the Bayesian approach and the necessary conditions for it.

**Keywords:** Bayesian approach, uncertainty, making decisions, subjective judgments, flexibility