

Michael Ben-Gad, Yakov Ben-Haim and Dan Peled, Allocating security expenditures under Knightian uncertainty: An info-gap approach, *Defence and Peace Economics*, to appear.

Abstract We apply the information gap approach to resource allocation under Knightian (non-probabilistic) uncertainty in order to study how best to allocate public resources between competing defense measures. We demonstrate that when determining the level and composition of defense spending in an environment of extreme uncertainty vis-a-vis the likelihood of armed conflict and its outcomes, robust-satisficing expected utility will usually be preferable to expected utility maximisation. Moreover, our analysis suggests that in environments with unreliable information about threats to national security and their consequences, a desire for robustness to model mis-specification in the decision making process will imply greater expenditure on certain types of defense measures at the expense of others. Our results also provide a positivist explanation of how governments seem to allocate security expenditures in practice.

Keywords Defense; Knightian Uncertainty; Robustness; Info-gap