Robust and Random Rationalizability

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Abstract

This paper studies the testability of theories when data might be subject to measurement error. The paper proposes a general framework for rationalizing data and refuting theories robust to measurement error. The paper also considers noisy observations, and, under several different assumptions on the distribution of errors, gives conditions under which features of a model might be estimated or tested using such data. Examples including consumer demand and general equilibrium illustrate the main results.