

RISK ATTITUDES

LET l BE A NON-DEGENERATE LOTTERY, AND LET $\bar{l} : (E[l], 1)$.

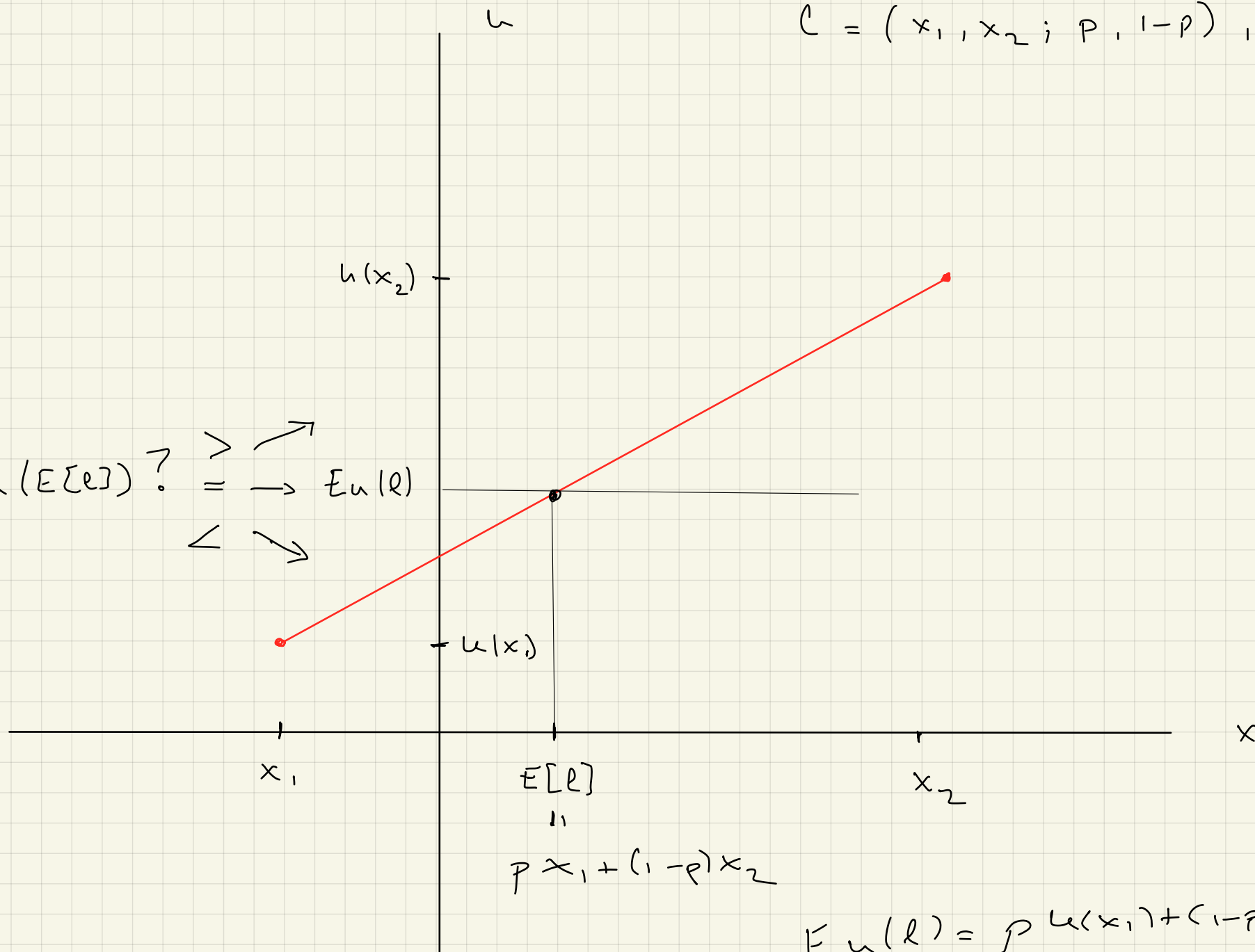
RISK ATTITUDE	$\succsim$	$u : \mathcal{R} \rightarrow \mathbb{R}$	$u \in C^2$
NEUTRAL	$l \sim \bar{l}$	(*) $E u(l) = u(E[l])$ (**) $E u(l) = u(E[l])$	$u'' = 0$
AVERSE	$l \prec_A \bar{l}$	$E u(l) < u(E[l])$	$u'' < 0$
LOVING	$l \succ_L \bar{l}$	$E u(l) > u(E[l])$	$u'' > 0$

(*) $E u(l) := E[u(l)]$

(**) $u(E[l]) = 1 \cdot u(E[l]) = E u(\bar{l})$

$$l = (x_1, x_2; p, 1-p), \quad p \in (0, 1)$$

$u(E[l]) ?$
 $\begin{matrix} > \nearrow \\ = \rightarrow \\ < \searrow \end{matrix} E u(l)$

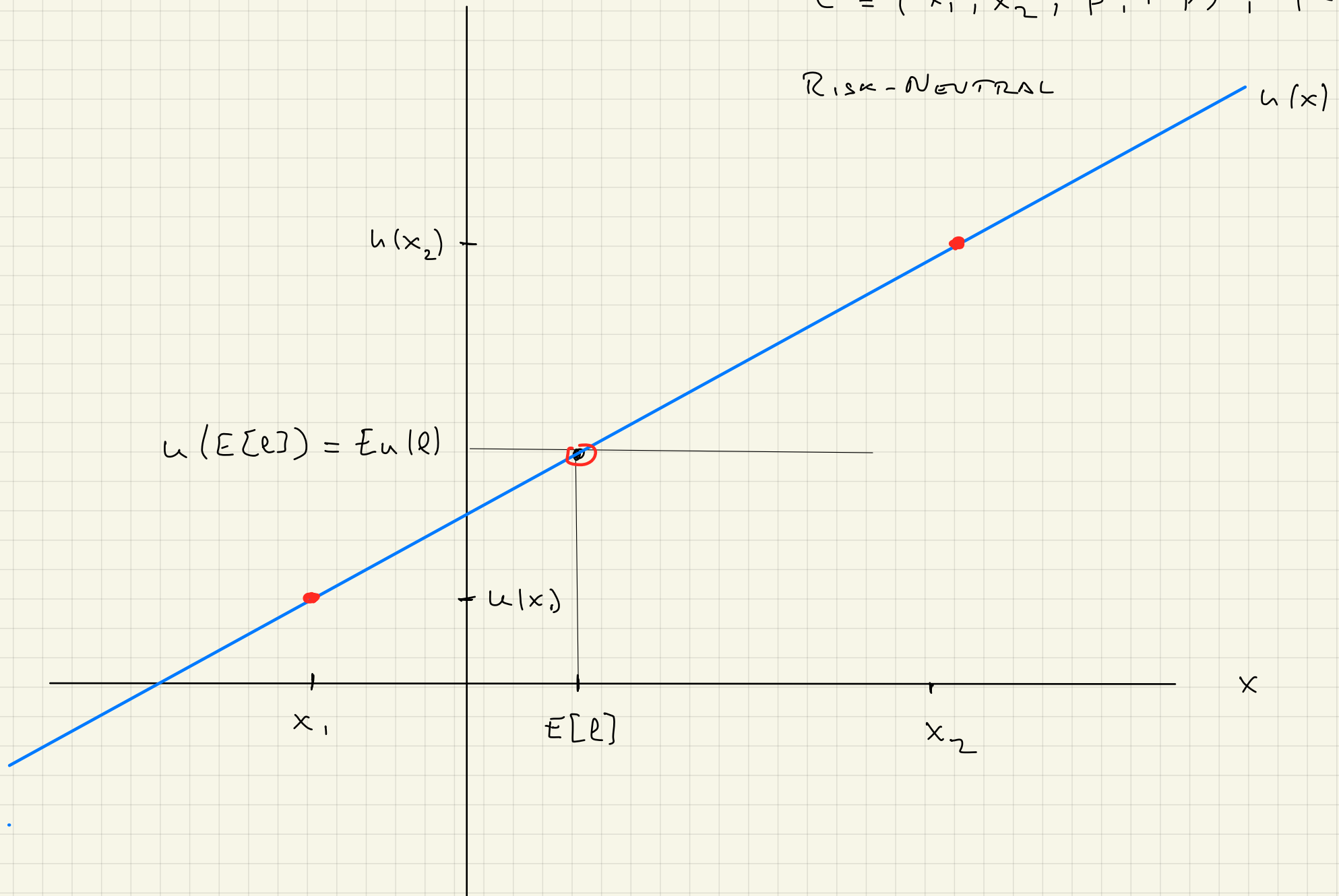


$$p x_1 + (1-p) x_2$$

$$E u(l) = p u(x_1) + (1-p) u(x_2)$$

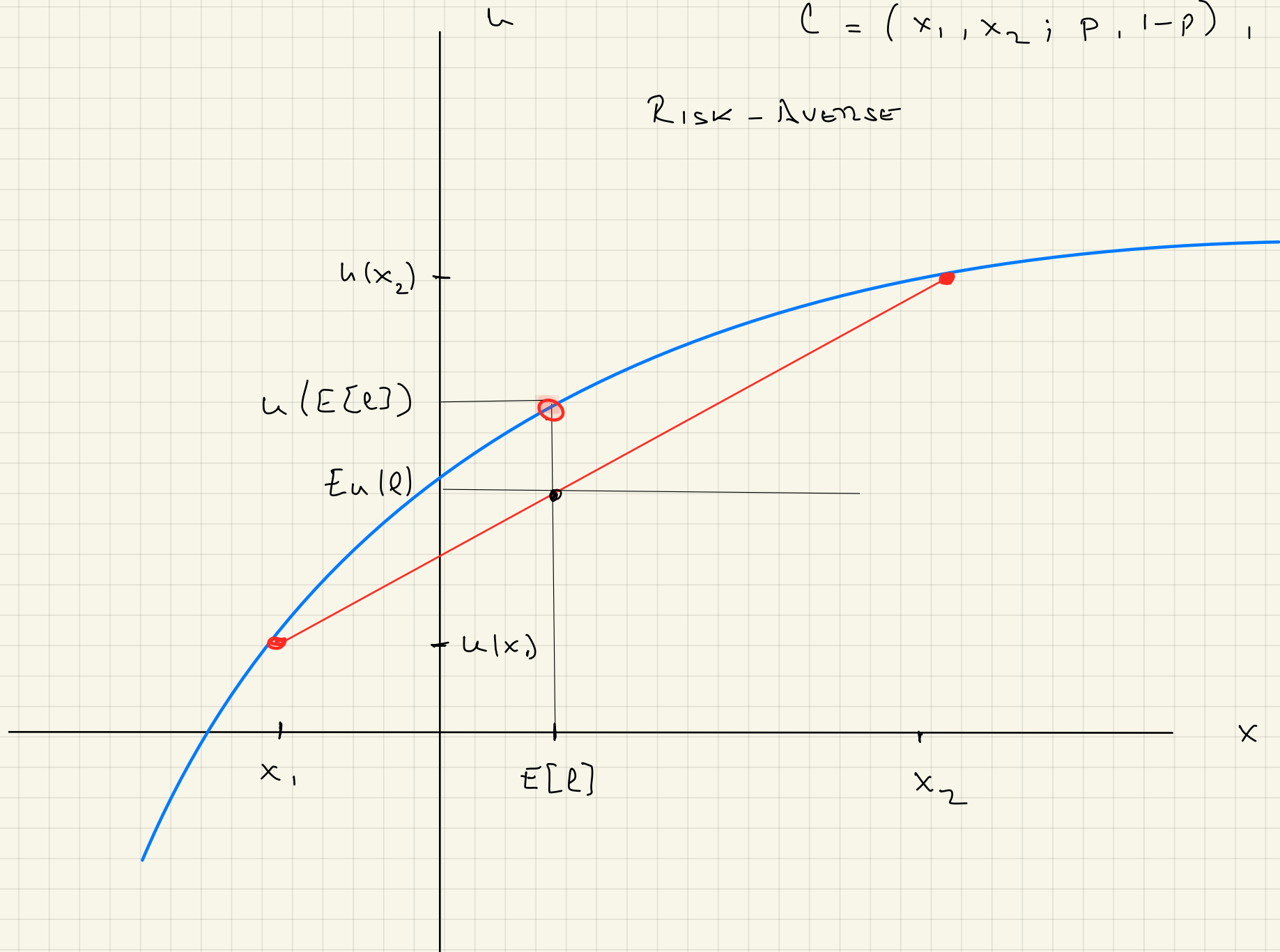
$$l = (x_1, x_2; p, 1-p), \quad p \in (0, 1)$$

RISK-NEUTRAL



$$l = (x_1, x_2; p, 1-p), \quad p \in (0, 1)$$

Risk-Averse



$$l = (x_1, x_2; p, 1-p), \quad p \in (0, 1)$$

Risk-Loving

