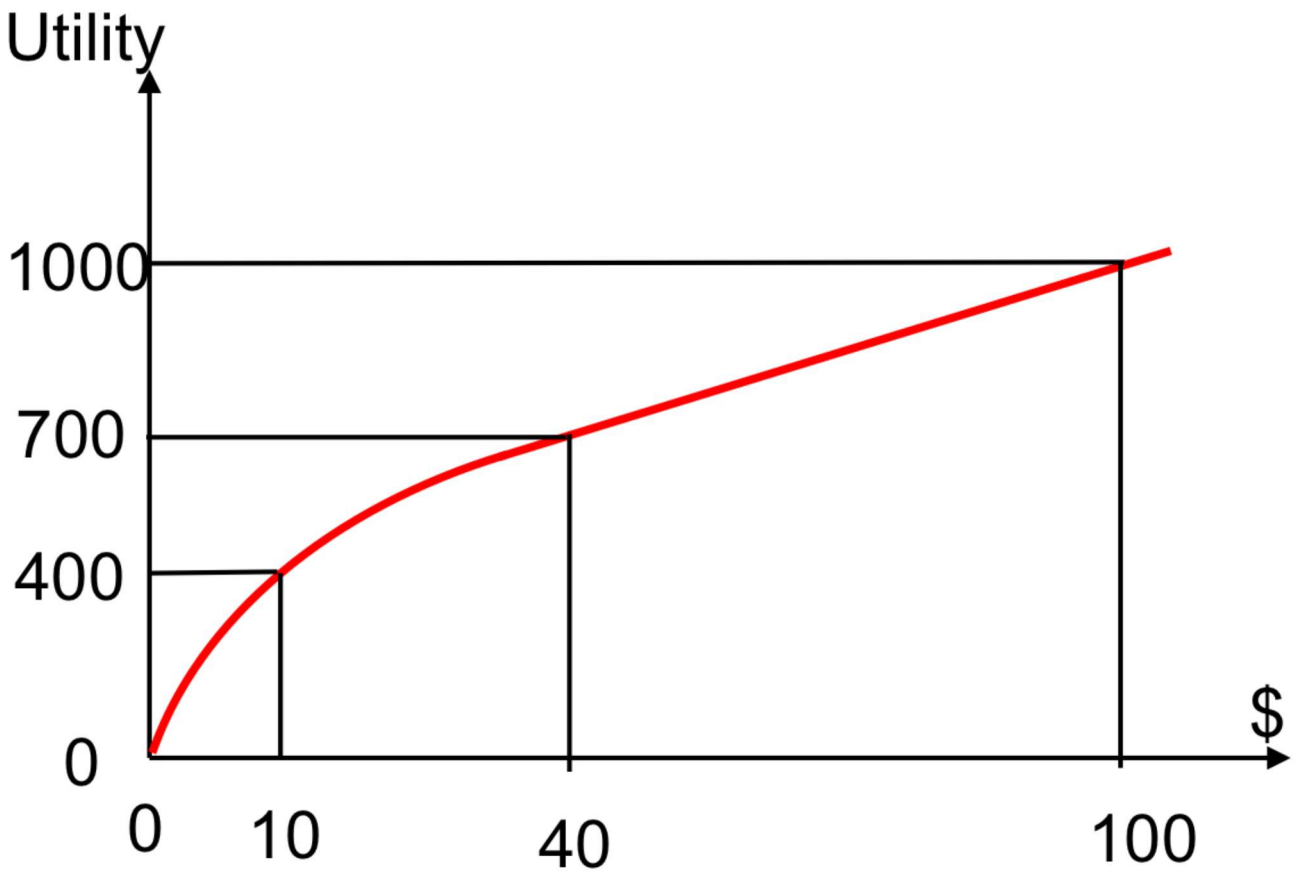
hw3_games_q10_certainty_equivalent_values

Question 10: Certainty Equivalent Values

0.0/4.0 points (graded)

Consider the utility function shown below.



Under the above utility function, what is the certainty equivalent monetary value in dollars ($) of the lottery $[0.6, \$0; 0.4, \$100]$?

I.e., what is X such that $U(\$X) = U([0.6, \$0; 0.4, \$100])$?

Hint: Keep in mind that $U([p, A; 1-p, B])$ *is* ***not*** *equal to* $U(pA + (1-p)B)$.

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Answer: 10

$$U([0.6, \$0; 0.4, \$100]) = 0.6 * U(\$0) + 0.4 * U(\$100) = 400$$
$$U(\$10) = 400$$

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Answers are displayed within the problem