

Quiz 1: Culp Chapter 2 - Risk, Uncertainty, Profit

Please write at least one page, but no more than two pages for each of the following essay questions. Answer the questions in terms of the readings we have done in the course so far, but especially in light of *Chapter 2 - Risk, Uncertainty, and Profit* by Culp.

1. What is the relationship between Knightian Uncertainty and Hayekian knowledge problems?
2. Knight makes a strong distinction between risk and uncertainty. Outline and analyze the two concepts in Knightian terms.
3. Culp recasts Knightian risk as **non-core risk** and Knightian uncertainty as **core risk**. Explain what this has to do with risk transfer and why we are studying it in a derivatives course.
4. On page 128 of the McDonald textbook (Chapter 5) the author states the following: *“The market-maker thus engages in the same transactions as an arbitrageur, except the purpose is risk management, not arbitrage.”* Analyze this statement from the market-process/subjectivist perspective (Hayek, Buchanan, Knight, Boettke, etc) that we have been laboring to develop in this class.