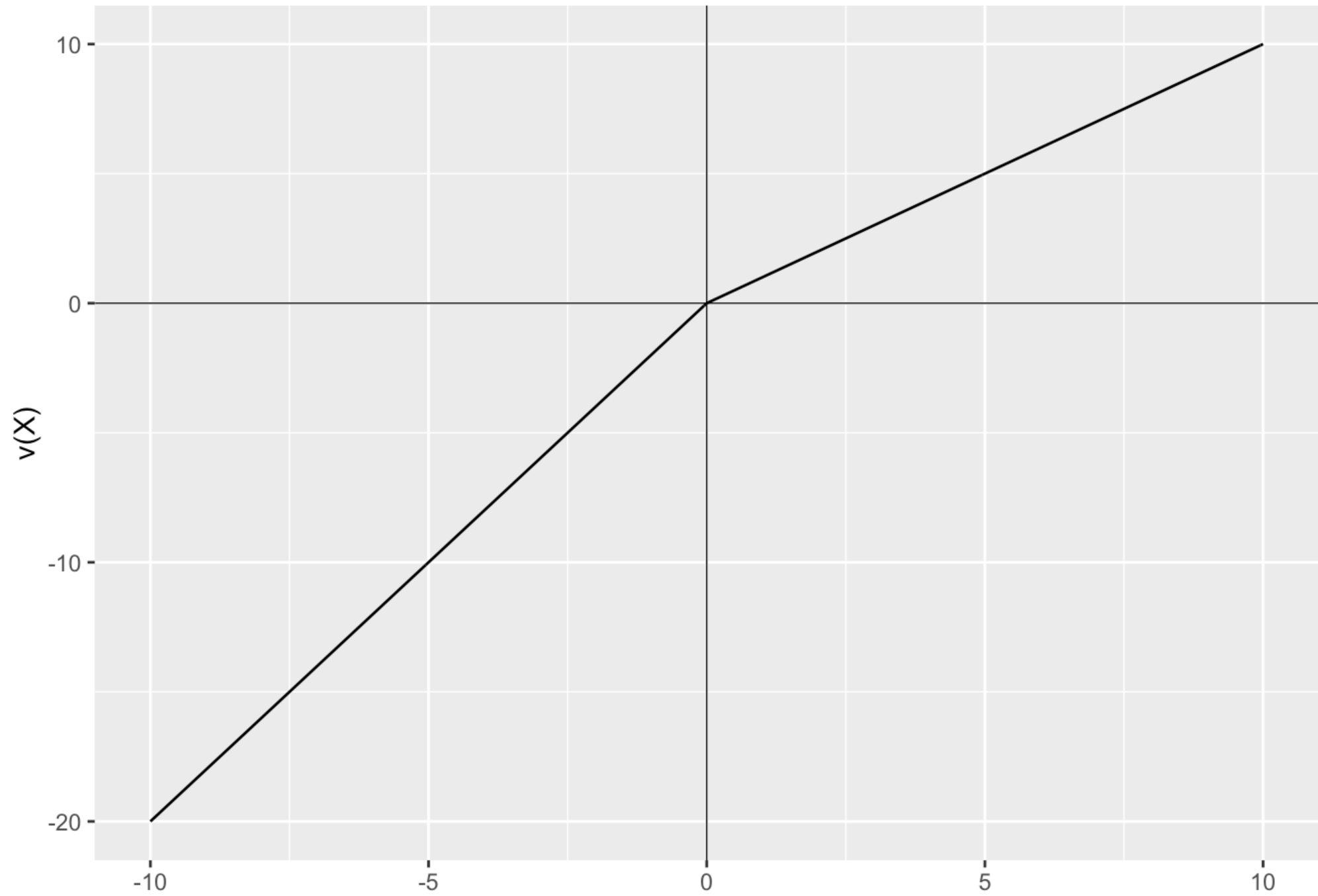


Loss aversion

$$v(x) = \begin{cases} x & \text{where } x \geq 0 \\ 2x & \text{where } x < 0 \end{cases}$$





Willingness to accept: \$5.75

Willingness to pay: \$2.25

$$v(x) = \begin{cases} x & \text{where } x \geq 0 \\ 2x & \text{where } x < 0 \end{cases}$$

$$v(x) = \begin{cases} x & \text{where } x \geq 0 \\ 2x & \text{where } x < 0 \end{cases}$$

$$V(x) = v(m - r_m) + v(5c - 5r_c)$$

$$\begin{aligned} V(x) &= v(5c - 5r_c) \\ &= v(5 \times 1 - 5 \times 2) \\ &= v(-5) \\ &= -10 \end{aligned}$$

Bruce is given a mug. Bruce's reference point adapts such that he considers the mug his. How much would Bruce need to be paid to give up the mug?

$$V(x) = 0$$

$$V(x) = 0$$

$$\begin{aligned} V(x) &= v(m - r_m) + v(5c - 5r_c) \\ &= v(W + p - W) + v(5 * 0 - 5 * 1) \\ &= v(p) + v(-5) \\ &= p - 2 \times 5 \\ &= p - 10 \end{aligned}$$

$$p = 10$$

Bruce is not given a mug, but rather an opportunity to purchase a mug. How much would Bruce be willing to pay for the mug?

$$V(x) = 0$$

$$V(x) = 0$$

$$\begin{aligned} V(x) &= v(m - r_m) + v(5c - 5r_c) \\ &= v(W - p - W) + v(5 * 1 - 5 * 0) \\ &= v(-p) + v(5) \\ &= -2p + 5 \end{aligned}$$

$$p = 2.5$$