Econ 277 Problem Set 1

(1) Do the Rabin calibration theorem argument for someone who rejects a 50-50 win 550, lose 500 bet from every wealth level. Find the smallest x you can such that the person rejects a 50-50 lose x win infinity bet.

(2) Assume Kahneman-Tversky loss-aversion with piecewise linear utility. Suppose that a person always rejects a 50-50 win 1 lose 0.95 bet, from any wealth level. Find the largest x such that you know that the person also rejects a 50-50 win x lose 20 bet.

(3) Assume KT loss aversion.

   (a) Assuming piecewise linear utility, find a lottery with negative expected value that a person with reference point 0 accepts, or show that this is impossible.

   (b) Without assuming piecewise linear utility, find a lottery with negative expected value that a person with reference point 0 accepts, or show that this is impossible.

(4) In the Koszegi-Rabin model, find an example of L, L' such that $U(L|L') > U(L'|L')$ and $U(L'|L) > U(L|L)$, or show that this is impossible.