

## A Numerical Problem

Income	Utility
1200	1297
1300	1482
1400	1565
1500	1641
1600	1711
1700	1775
1800	1833
1900	1885
2000	1930

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## A Numerical Problem

Income	Utility	Marginal Utility
1200	1297	
1300	1482	185
1400	1565	83
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Show that this individual is a risk averter

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Diminishing MU

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- Income is \$1500.
- He has risky pork belly contract with a 50% chance of winning \$300 and a 50% chance of losing \$300.

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Compute expected utility

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$$E(U) = 0.5(1297) + 0.5(1833) = 1565$$

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A broker offers to let him out of his contract for \$75.

Should he take the offer?

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Yes

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If he keeps the contract  $E(U) = 1565$ , equal to \$1400 of certain income. This way, his certain income is \$1425.

End

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