

Exercises for seminar week VI, October 26 - 29, ECON3215/4215, fall 2010

A

Cowell problem 7.5 (page 175)

B

Cowell problem 8.1 (page 219)

C

Cowell problem 8.4 (page 220)

D

Which attitude towards risk is implied by the following utility functions:

(a) $u(x) = \log x$

(b) $u(x) = e^x$

(c) $u(x) = a+bx$, where a and b are positive constants

(d) $u(x) = x^2$

(e) Consider the utility function $u(x) = a+bx+cx^2$. Which conditions must be imposed on this function for it to represent a risk averse agent who derives utility from x ? Is the function valid for any value of x ?

When relevant, compute the indices of absolute and relative risk aversion.