Microeconomics: Monika Köppl-Turyna

Additional Questions: Chapters 6 and 8

Persons whose utility functions are concave with respect to wealth are said to be

- A. Risk-seekers
- B. Risk-neutral
- C. Risk-averse
- D. Fair gamblers

Which of the following gambles should be consider more attractive:

- A. If heads, you win \$200; if tails, you lose \$198
- B. If heads, you win \$5; if tails, you lose \$10

C. If heads, you win \$6; if tails, you lose \$4

D. If heads, you win \$9; if tails, you lose \$6

You are given the following gamble: behind one door is \$500; behind another is \$100; behind another is \$0. What is the expected value of the gamble?

- A. \$600
- <u>**B.</u>** \$200</u>
- C. \$300
- D. We need more information in order to answer

According to the rational choice model which of this two events should be valued more rational consumers:

- i. A gift of mug valued at \$10
- ii. Finding the mug you thought was lost, which cost you \$10 to purchase.
- A. Both events should have the same value
- B. Event A
- C. Event B
- D. There is really no way to rationally decide.

If you were to behave according to the rational choice model when confronted with a loss of \$25 on the same day in which you receive an unexpected gift of \$25 you would

A. Value the loss of \$25 more heavily than the gain of \$25

B. Discount the loss and value the gain so that you feel you have gained welfare

<u>C.</u> See the two events as exactly offsetting and thereby of no consequence in your overall welfare

D. Value the gift of \$25 more than the loss of \$25

Kahneman and Tversky have found that

- <u>A.</u> People tend to weigh each event separately
- B. People tend to treat gains and losses symmetrically
- C. People attach more importance to the gain than to the loss
- D. People tend to act rationally

The Kahneman-Tversky value function is

- A. A conventional utility function
- **<u>B.</u>** Much steeper in losses than in gains
- C. Much steeper in gains than in losses
- D. Mot defined over changes in wealth

Suppose a rational consumer faced with a choice between blue pencils and red pencils will always choose the red ones. If she is also offered a choice of green pencils then

- A. She will always choose the green ones
- B. She will change her mind and choose the blue pencils
- C. She will continue to choose the red pencils
- **D.** May choose either the blue or the red pencils