ECON 204 Sec. 01

Quiz 1

Dr. Kevin Hasker

1. *(4 Points)* **Honor Code:** Please read and sign the following statement:

   I promise that my answers to this test are based on my own work without reference to any notes, books, or the assistance of any other person during the test. As well, I will not assist others nor use a calculator or other electronic device.

   Name and Surname: _

   Student ID: _

   Signature:

   _

2. *(4 points)* If Mozzi is richer than Suozi do we expect that Mozzi is more risk averse or less risk averse than Suozi? Explain

   Solution 1 *Everything else equal we expect that Mozzi will be less risk averse than Suozi. This is simply a stylized fact, if someone earns 1000TL a month then losing 1000TL will be a disaster, but if they earn 100,000TL a month they will hardly notice the loss.*

3. *(4 points)* Define *Pareto Dominance.*

   Definition 2 *If everyone likes A more than B and some people strictly prefer A to B, then we say that A* Pareto dominates *B.*

4. *(4 points)* Define the *certainty equivalence* of a lottery F.

   Definition 3

   $$u(C) = \int u(x)\, dF(x)$$

   or in words it is the amount of money you would take rather than facing some risky event.

5. *(4 points)* Define *Pareto Efficiency.*

   Definition 4 *An allocation is Pareto Efficient if it is not Pareto dominated.*

   Or if anything that makes some strictly better off makes others strictly worse off.