

Economics 870
Fall 2011
Practice Exercise #1.

- 1. D-D. p.351-2. Exercise 1.4.**
- 2. D-D p.352-3 . Exercises 3. 1- 3.3.**
- 3. Read Mas-Colell et al Chapter 6 handout (on the Econ 870 webpage).
Show that the expected utility theorem axioms imply straight line indifference curves over all probability distributions with three outcomes. Hint see around M. p.175.**
- 4. Explain the Allais paradox using a diagram with probability distributions over three outcomes. Hint see D-D section 3.6 and M. pp.178-180.**
- 5. Explain “Machina’s Paradox” see M. pp. 180-181.**