Economics 11 Caltech Spring 2010

QUIZ 8

LAST QUIZ

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Following the Honor code, you should find 20 minutes and do the quiz, by yourself and without using any notes. Paper and pen should be all you need. Turn it in by Thursday 5-27 5pm. (drop off in lecture or in box in front of Baxter 133). Each quiz is worth 6pts (for 48 out of 200 possible pts for all 8 quizzes)

The answers to the whole homework will be available Friday at 2pm.
1. Definitions (use words not equations)

3 lines or less

- **1pt** Please define Diversifiable risk

2. Word problem

One paragraph explanation can use a graph.

- **2pt** why and when does the lemon’s problem arise?
3. problem

- 3pts
- Suppose you are offered to pay a gamble. Where you earn $20 with probability 1/5 and $10 with probability 4/5. Your utility function is $u(x) = x^{0.5}$.
- What is the expected value of this gamble?
- What is the expected utility of this gamble?
- What is the certainty equivalent, and thus the maximum price of insurance?