

Types of Risk Preference

Think investment, or the lottery.

Risk aversion means every dollar is less valuable than the previous. **Risk neutrality** means the player is indifferent between gambling and receiving expected profit with certainty.

Risk seeking means every dollar is more valuable than the previous.

Von Neumann-Morgenstern Utility

The **expected utility** of a lottery is the weighted average of preferences of possible outcomes (when the players have "rational preferences." It's invariant under affine transformations.



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