

Chapter 19

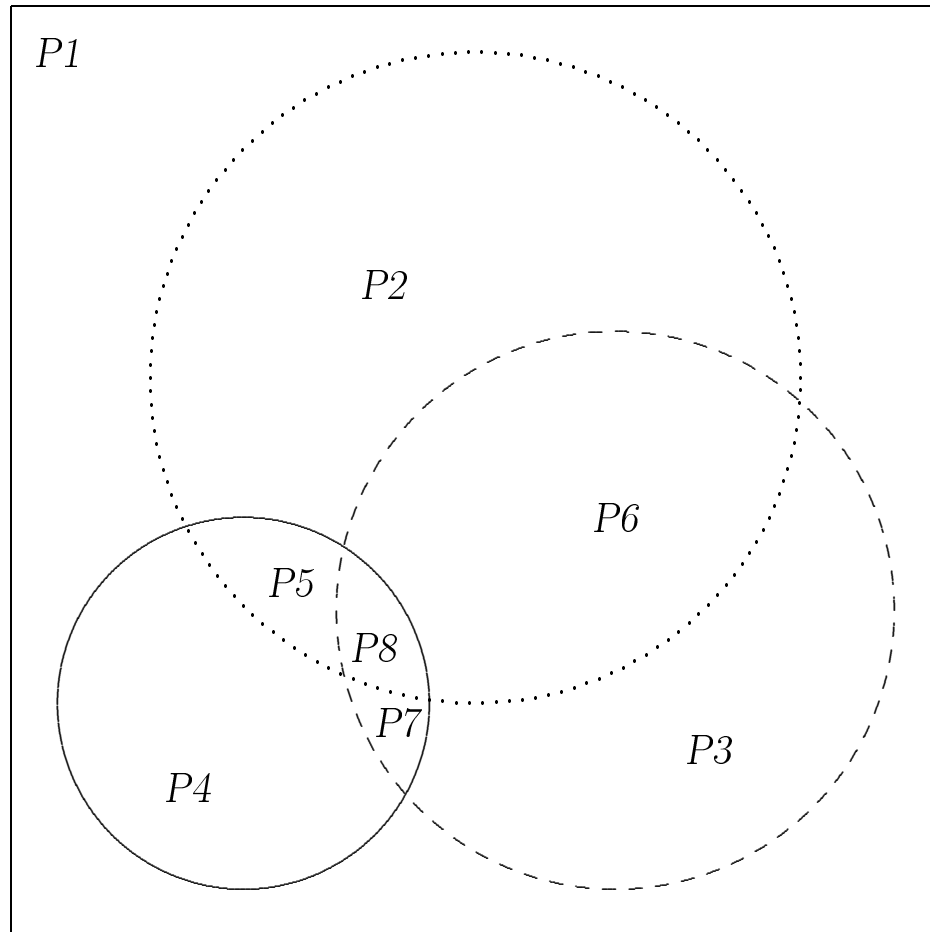


Figure 19.1: Venn diagram for horse-races

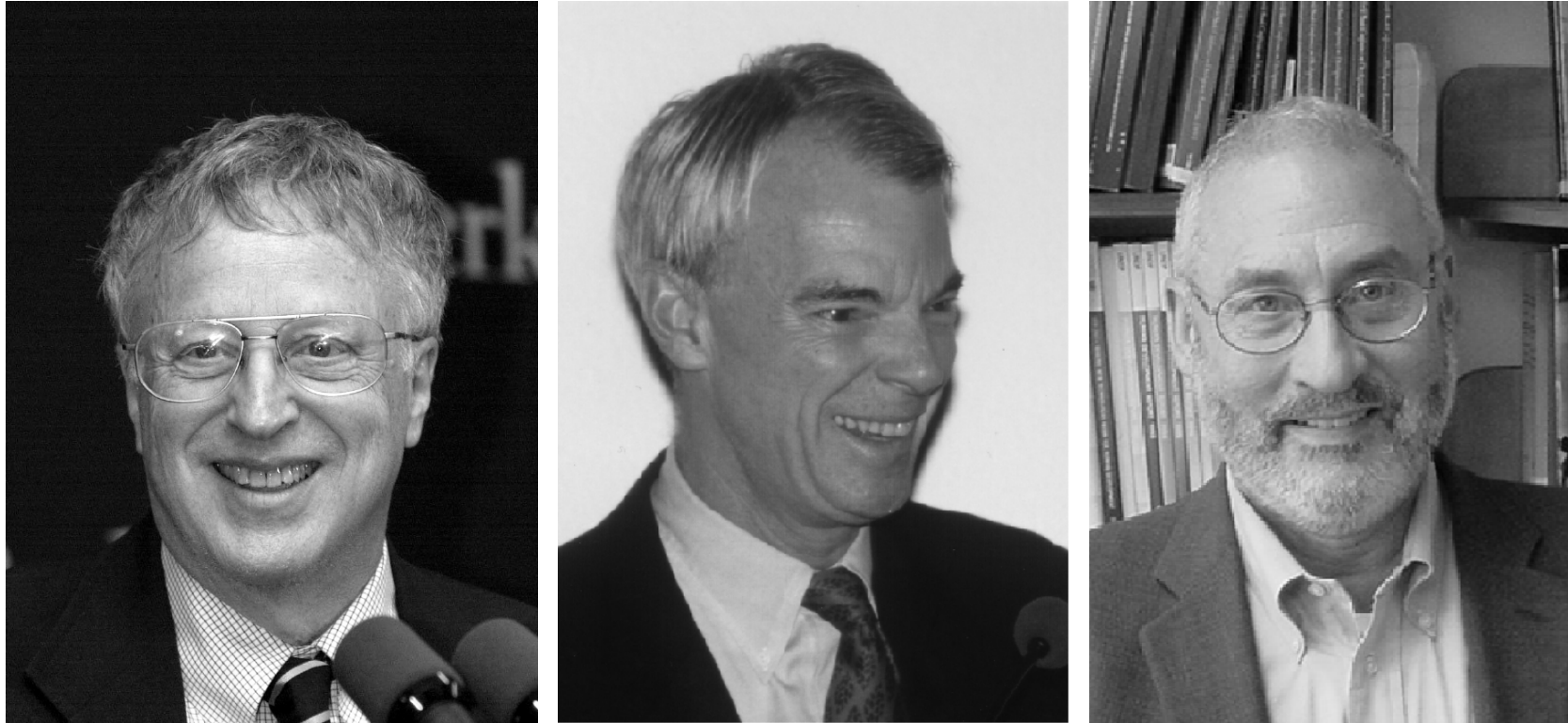


Figure 19.2: G. A. Akerlof, A. M. Spence, and J. E. Stiglitz

The photograph of Akerlof is by Noah Berger and used with the permission of the University of California, Berkeley. The photographs of Spence and Stiglitz are used with the permission of Stanford University and Columbia University.

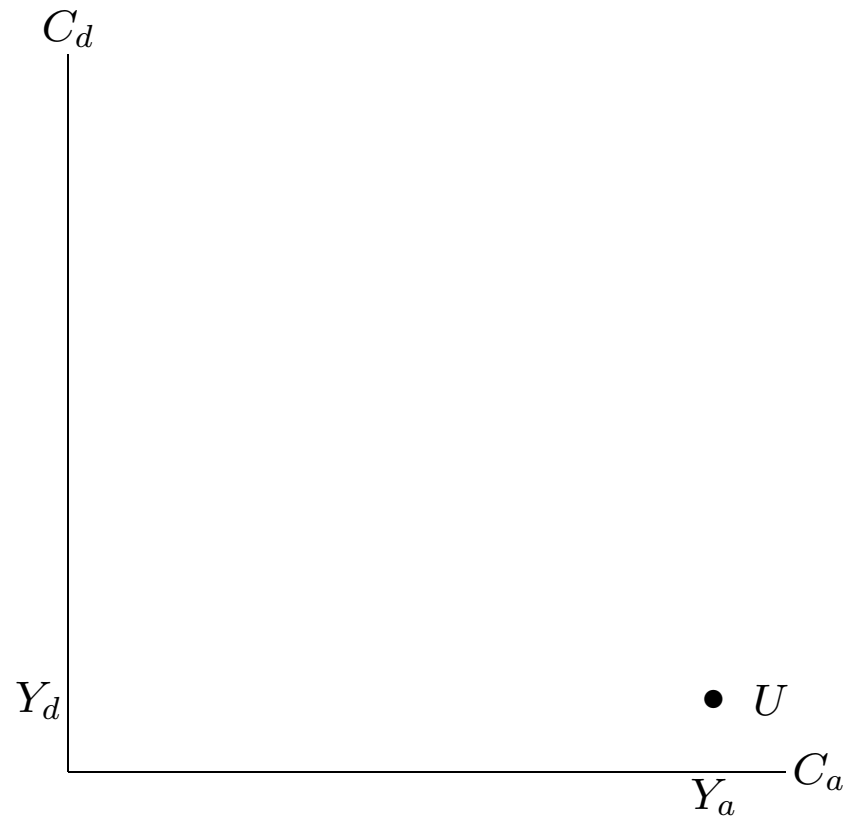


Figure 19.3: An uninsured individual has a higher income when able-bodied than when disabled.

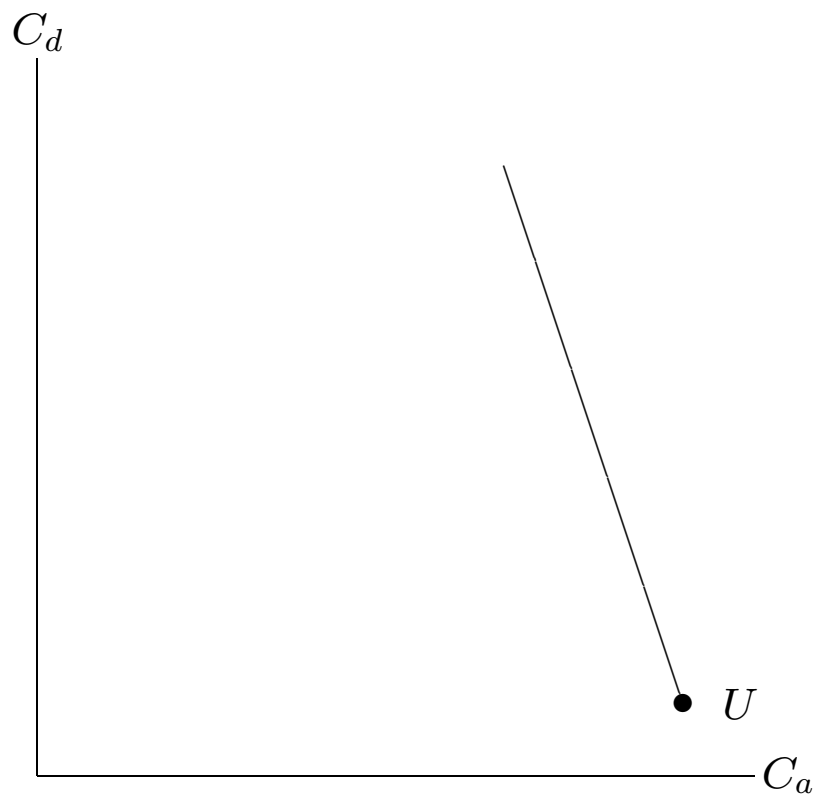


Figure 19.4: The absolute value of the slope of the fair-odds line is equal to the odds against being disabled.

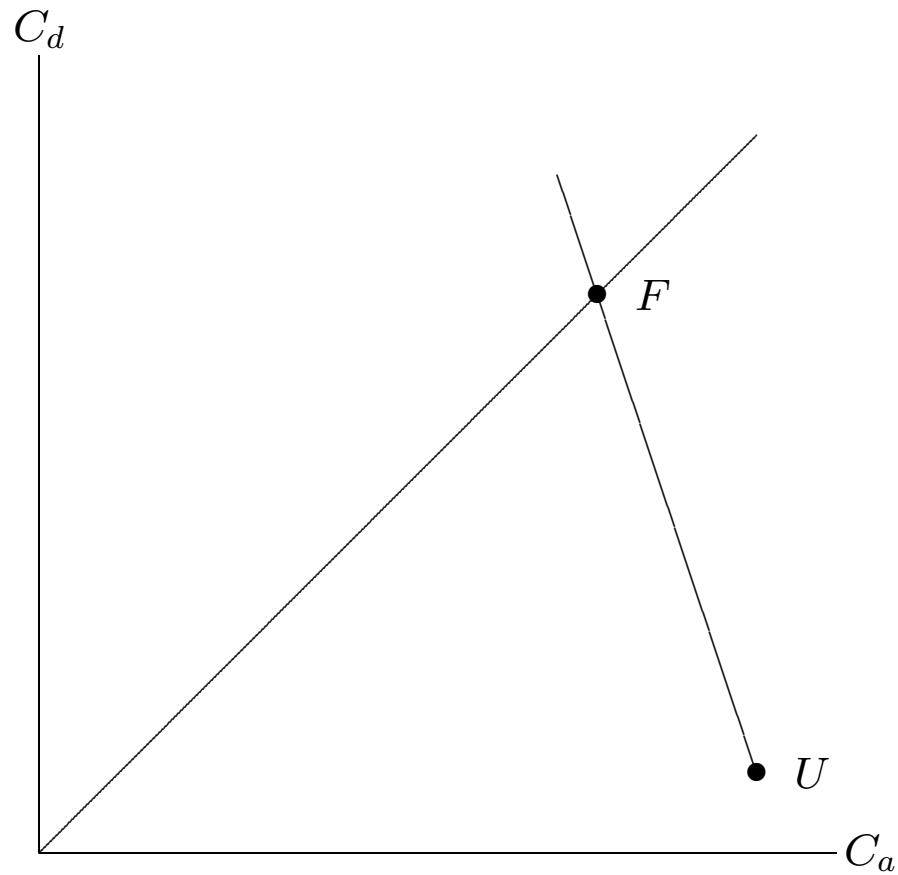


Figure 19.5: A risk averse individual seeks full insurance coverage, trying to move from U to F .

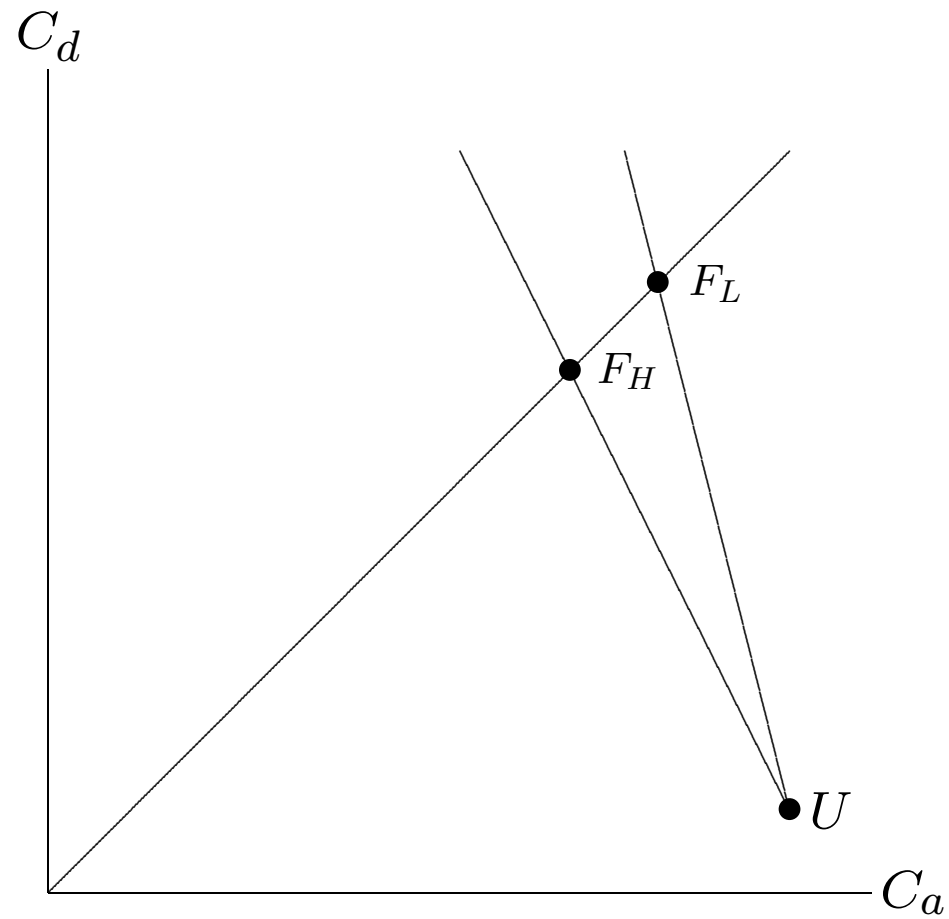


Figure 19.6: Insurance firms that can identify high-risk and low-risk individuals offer F_H to the former and F_L to the latter.

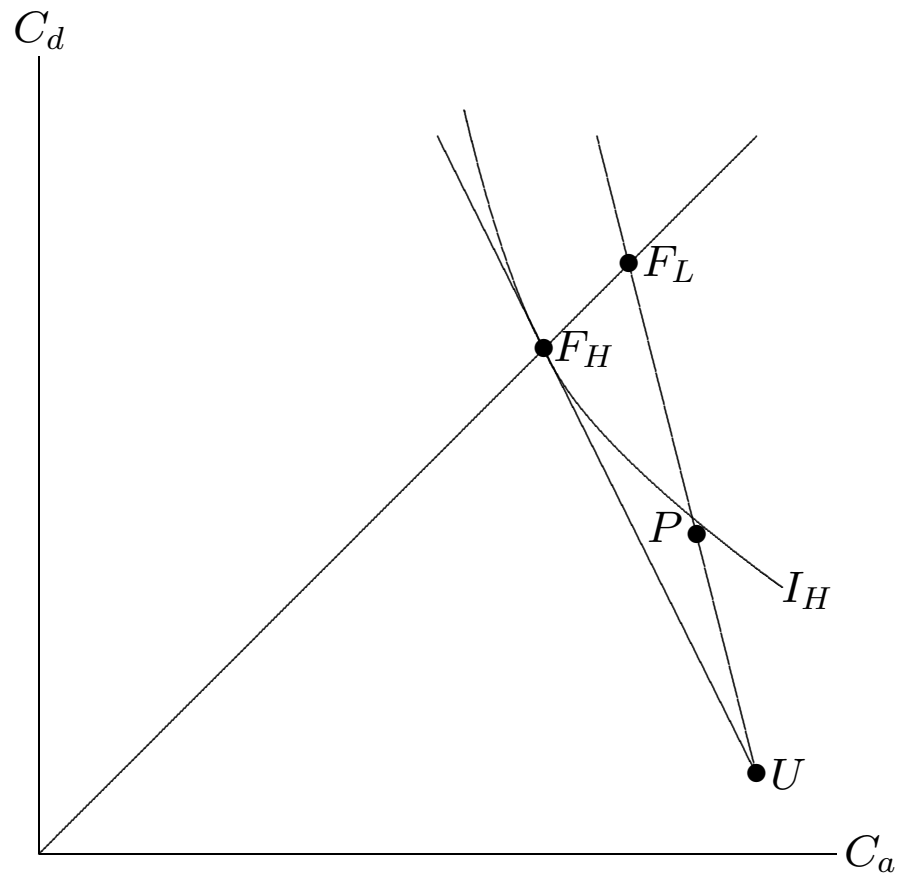


Figure 19.7: Insurance firms without knowledge of individual risk levels offer policies F_H and P . High-risk individuals select F_H and low-risk individuals select P .

Chapter 20



Figure 20.1: Daniel Bernoulli

The image is from *Die Werke von Daniel Bernoulli*, band 1 (Birkhäuser Verlag, 1996)

Table 20.1: Wealth in four combinations of actions and states of the world

	Wins	Loses
Bet	\$16	\$4
Don't	\$9	\$9



Figure 20.2: John von Neumann

Photograph used with the permission of Los Alamos National Laboratory

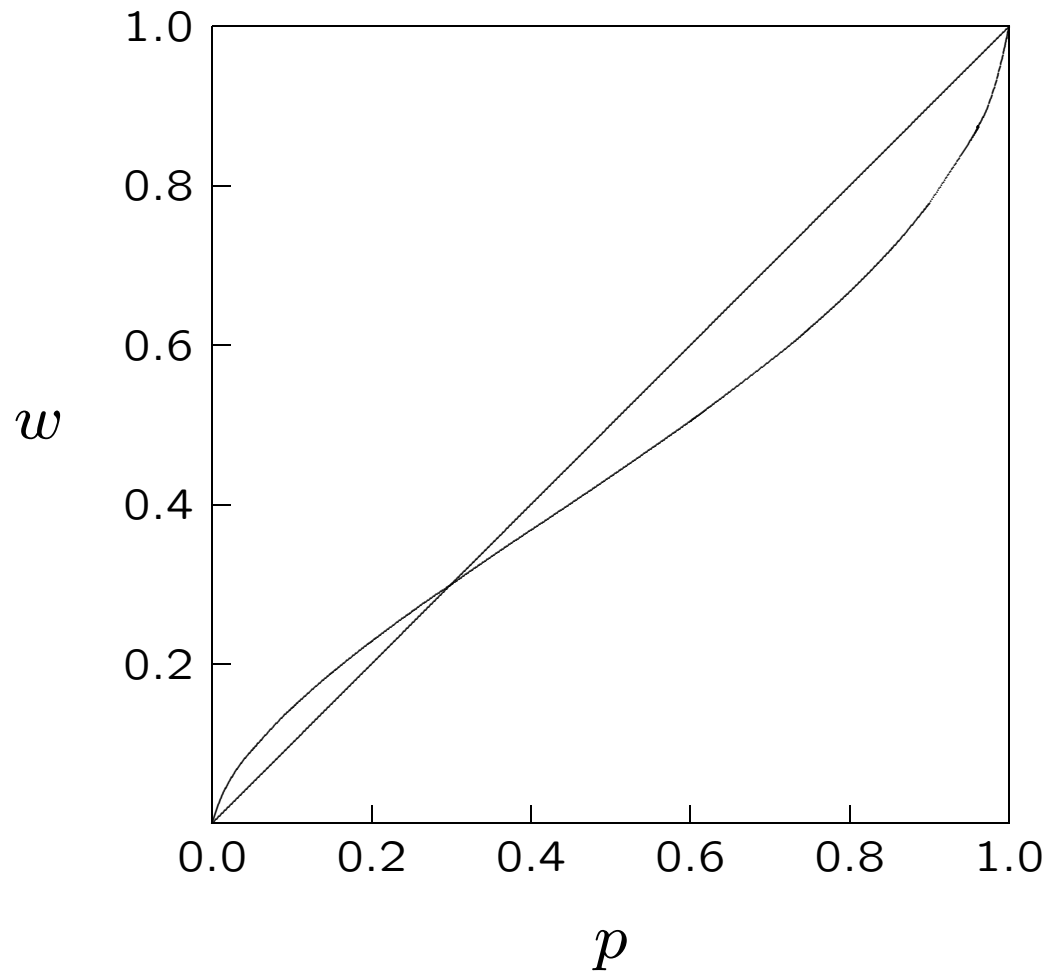


Figure 20.3: A weighting function and a 45° reference line

Table 20.2: Prospects involved in Allais's paradox

	More Risky Prospects	Less Risky Prospects
High Probability Pair	win 500 with probability .98	win 100 with probability 1
Low Probability Pair	win 500 with probability .0098	win 100 with probability .01

Table 20.3: Health status and diagnostic test results

Test Result	Sick	Well	Total
Negative	2	72	74
Positive	8	18	26
Total	10	90	100

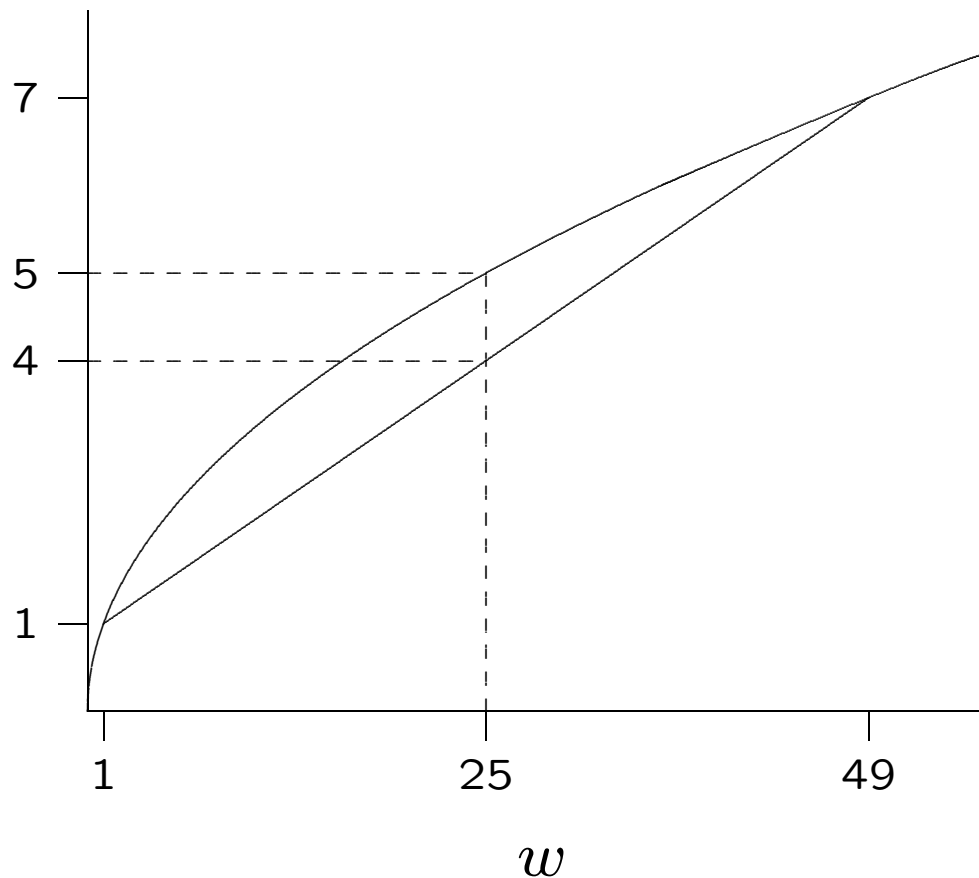


Figure 20.4: For an individual facing risk and having a strictly concave utility function, the utility of expected wealth $u(E(w))$ exceeds the expected utility of wealth $E(u(w))$.

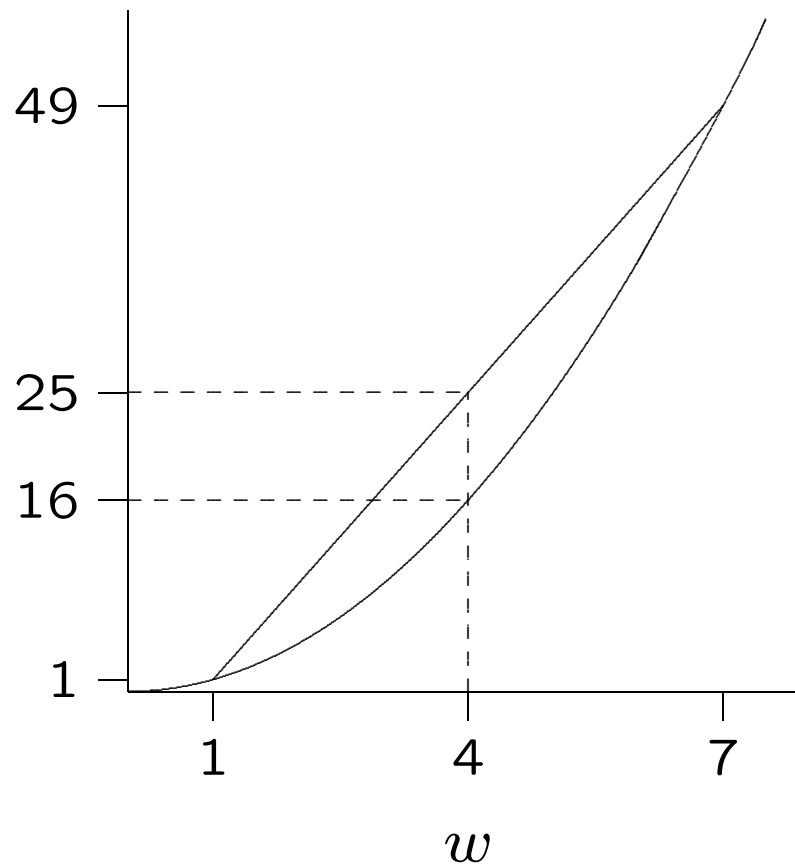


Figure 20.5: For an individual facing risk and having a strictly convex utility function, the utility of expected wealth $u(E(w))$ is less than the expected utility of wealth $E(u(w))$.

Chapter 21

Table 21.1 Frequencies (%) of actions in penalty kicks

	Kick to kicker's natural side	Jump to kicker's natural side
Equilibrium	61.46	58.01
Observed	60.02	57.69

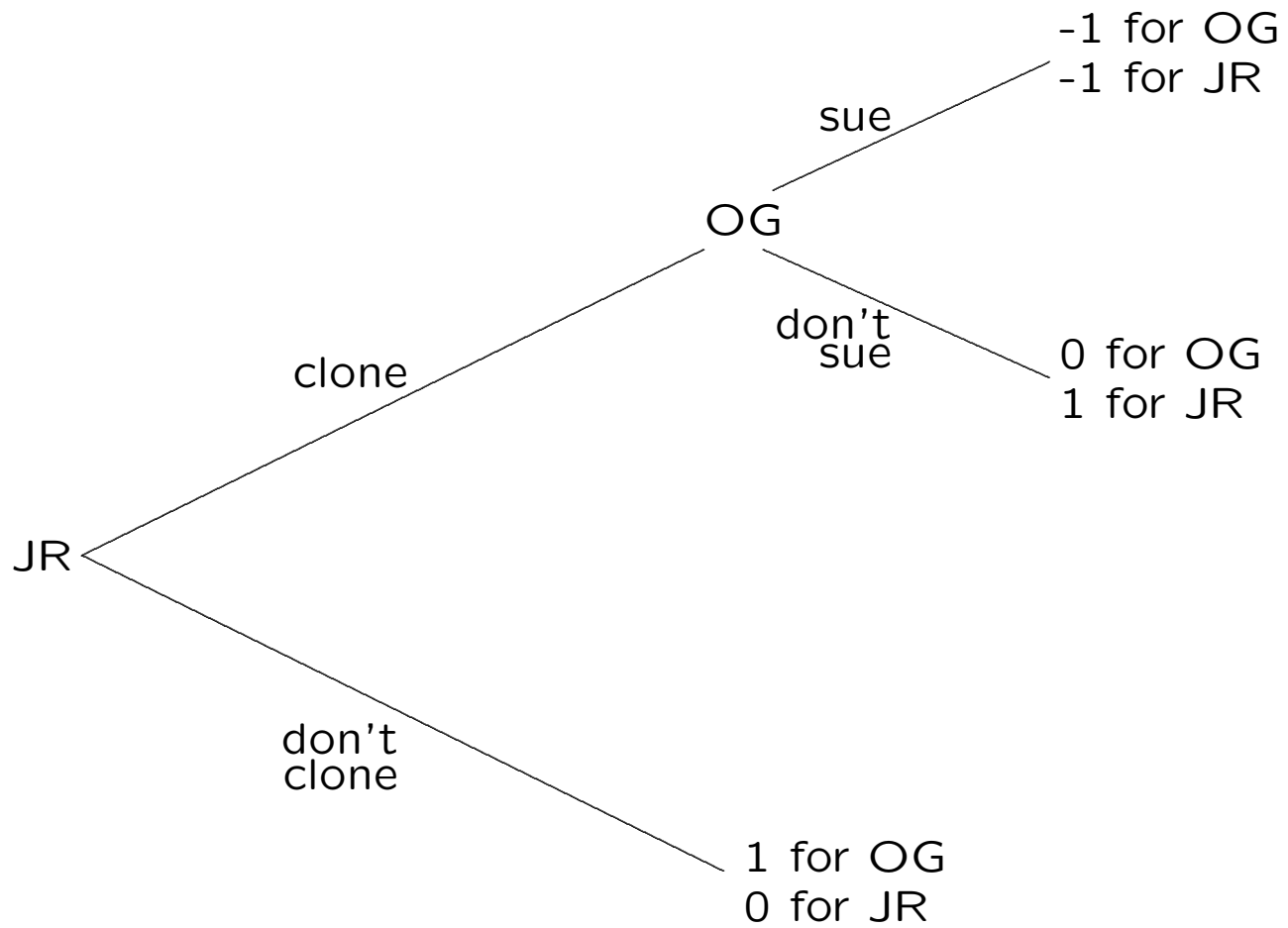


Figure 21.1: A game with sequential choice

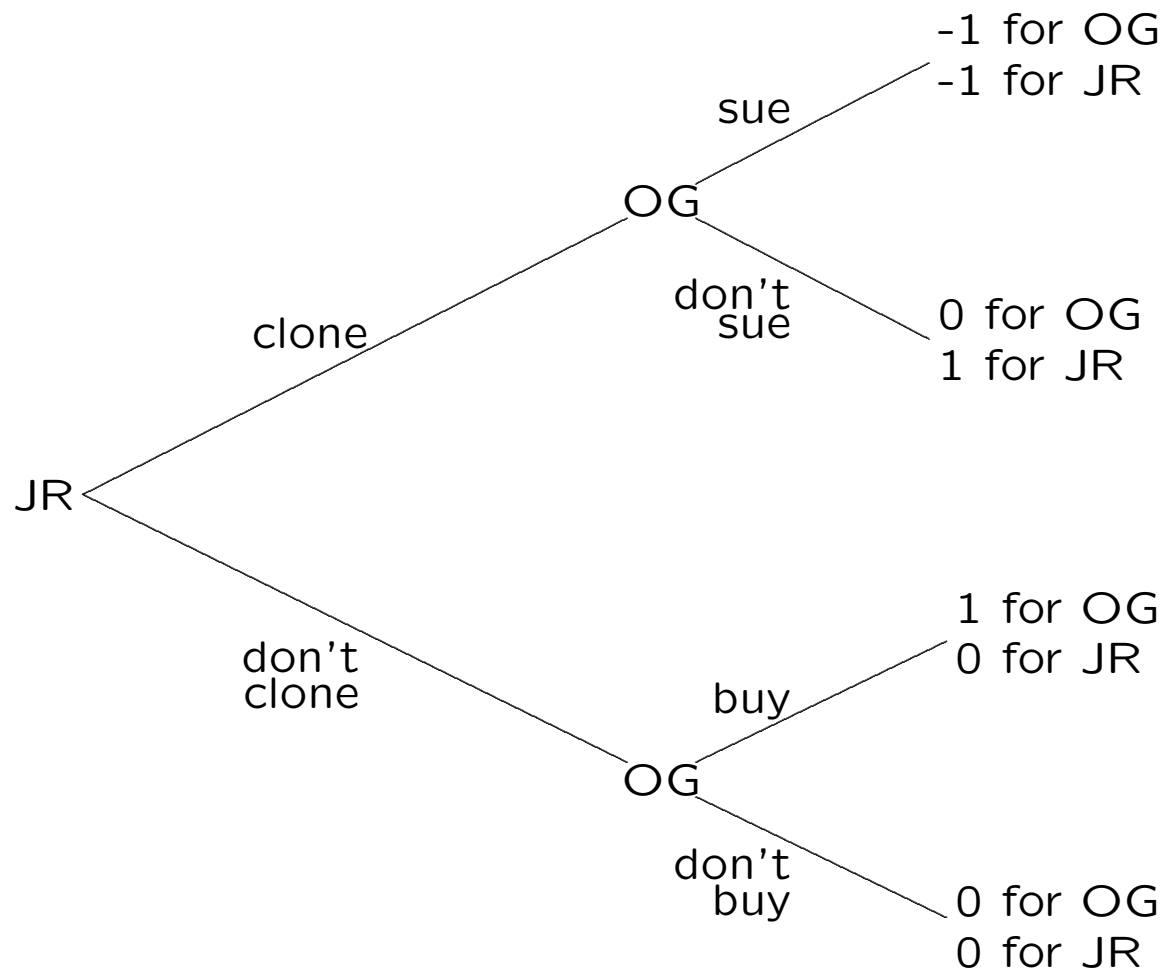


Figure 21.2: A game of sequential choice with four outcomes

Chapter 22

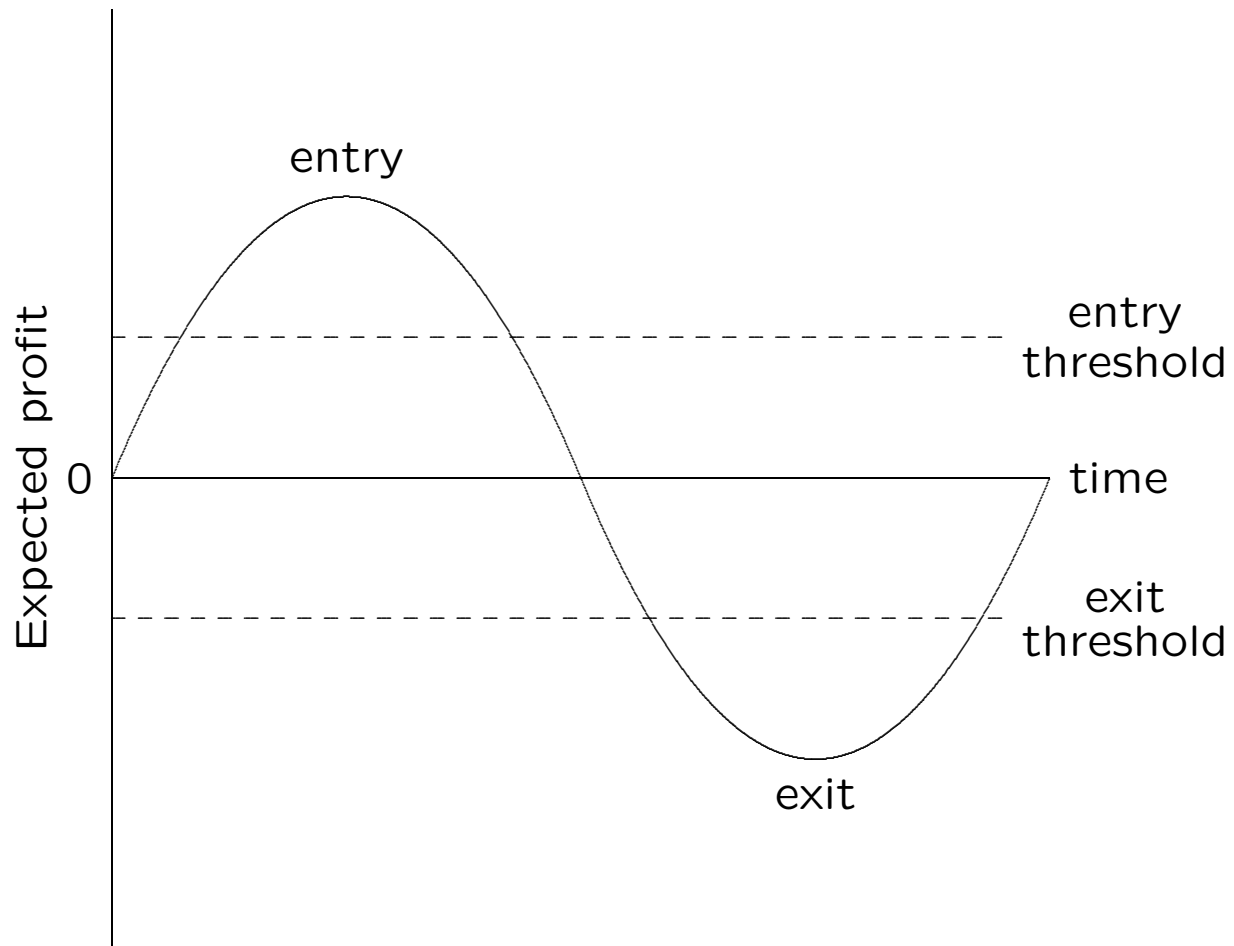


Figure 22.1: Entry and exit occur near the peak and trough of expected profit

Chapter 23

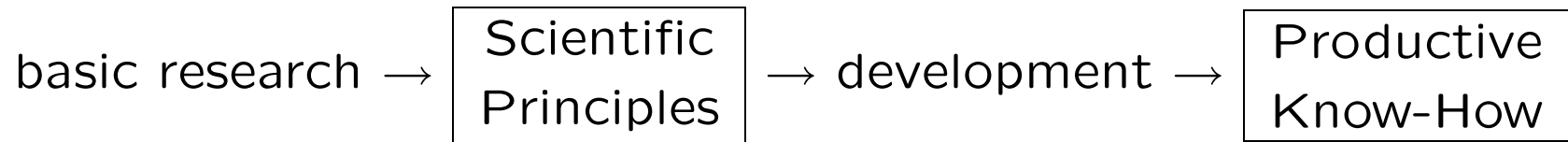


Figure 23.1: Process generating technological change

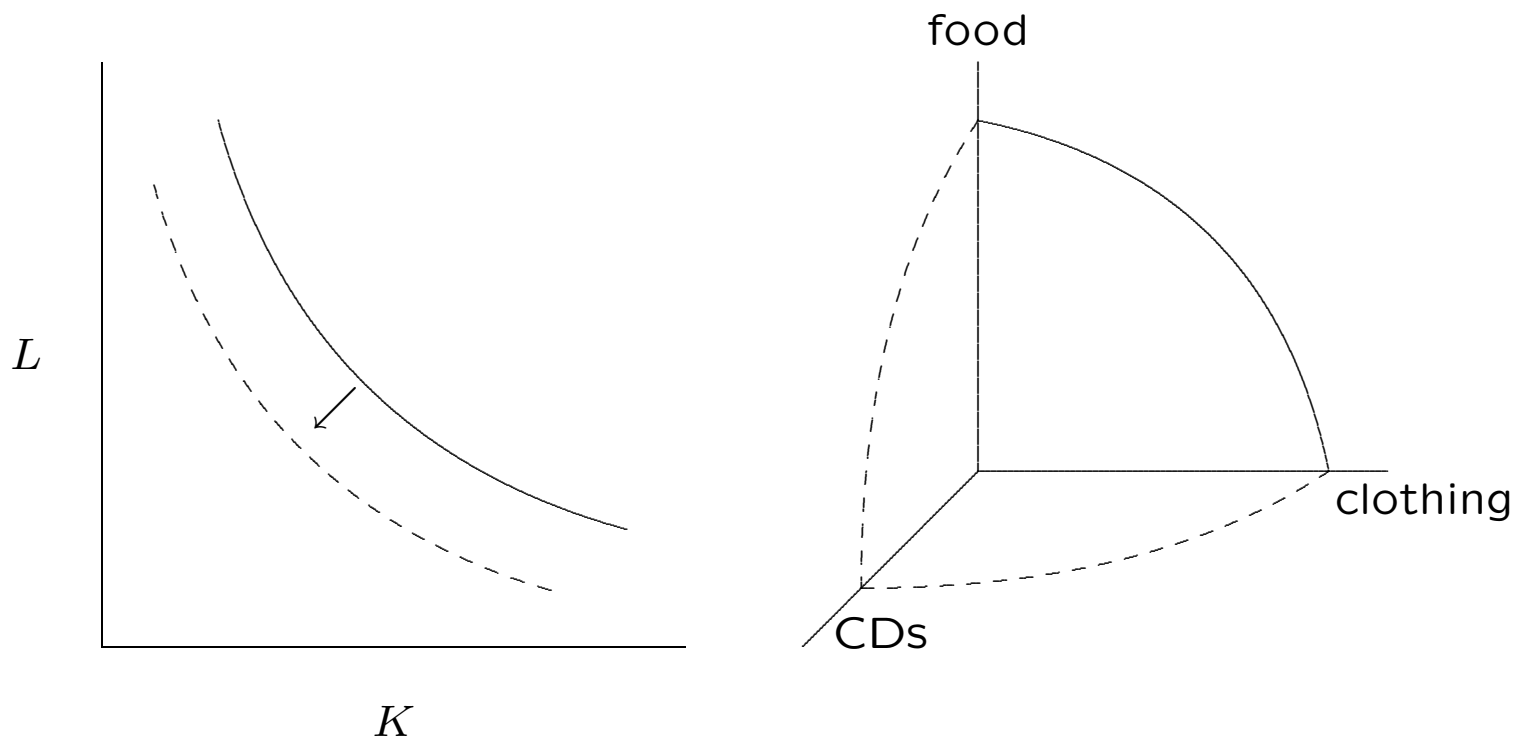


Figure 23.2: Development of new processes and products

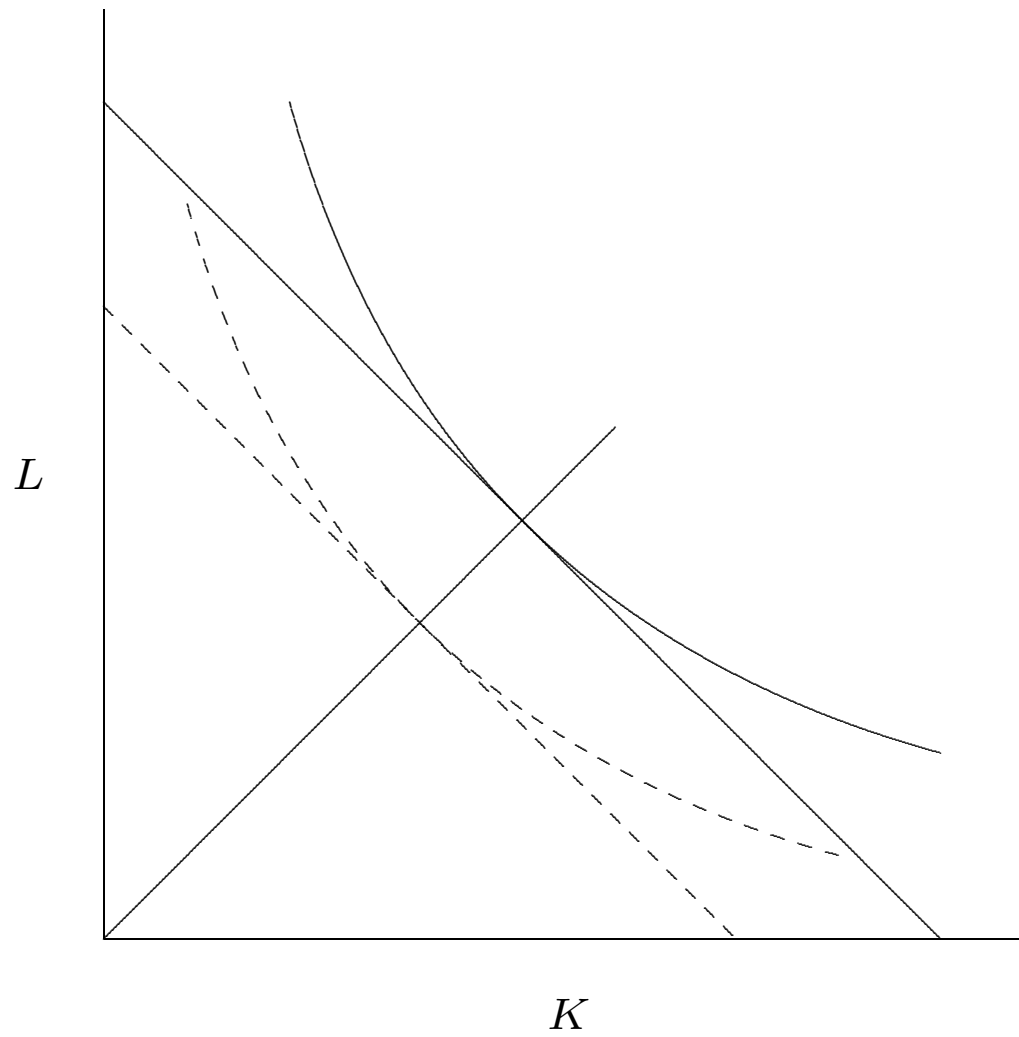


Figure 23.3: Neutral technological progress

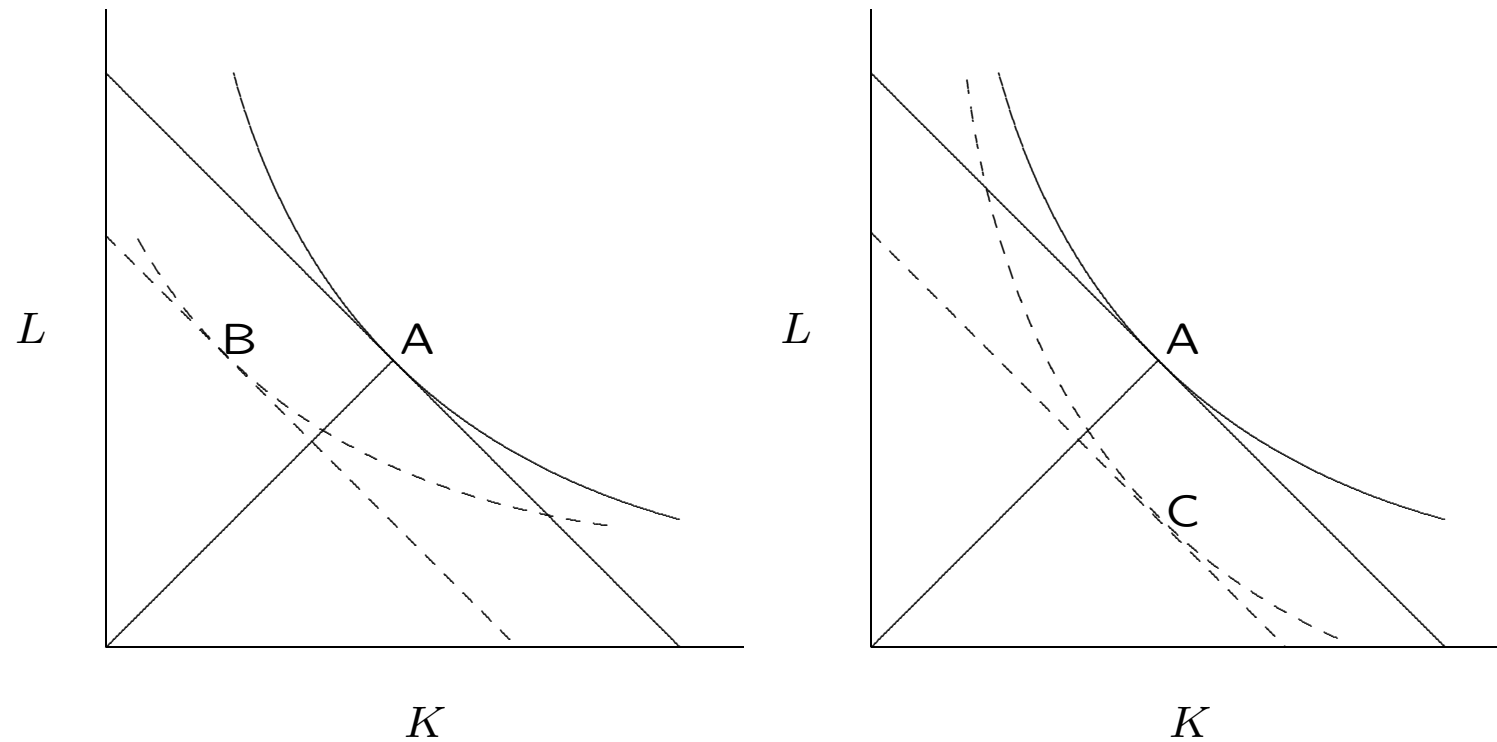


Figure 23.4: Capital-saving technological change (left panel) and labor-saving technological change (right panel)

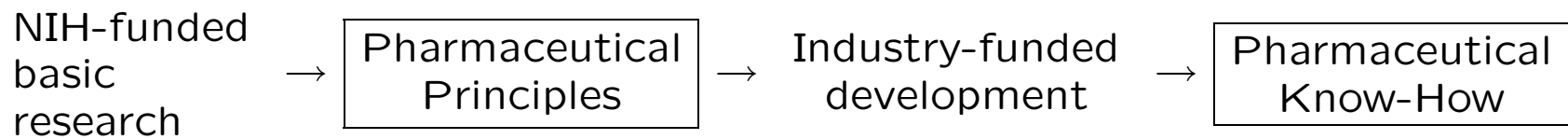


Figure 23.5: Process generating technological change in the drug industry

Chapter 24

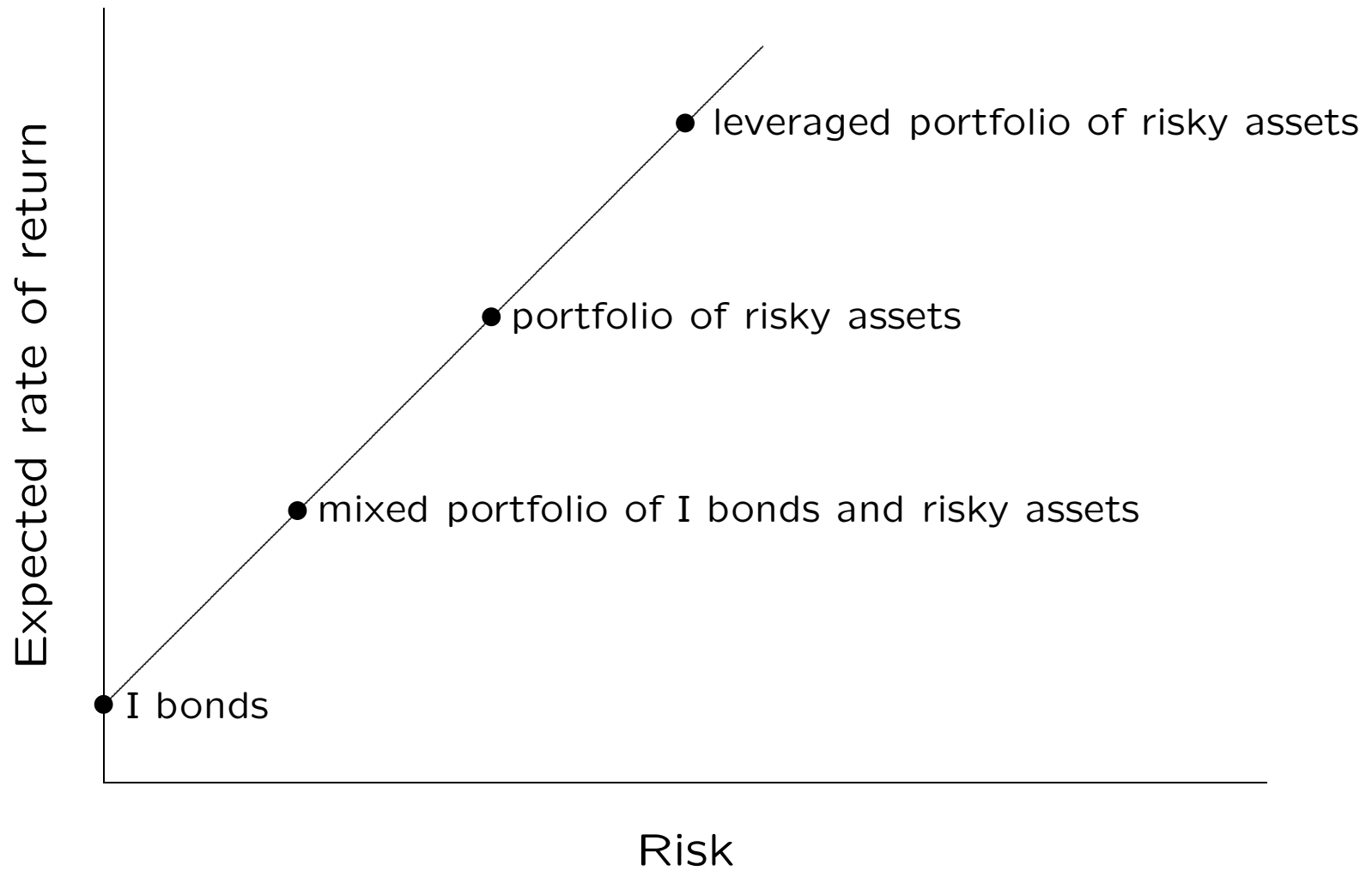


Figure 24.1: Spectrum of portfolios

Table 24.1: Firms cross classified by past and future characteristics

Firms that last quarter	Firms that will		total
	go bankrupt	survive	
lost money	8	27	35
made money	2	63	65
total	10	90	100

Chapter 25

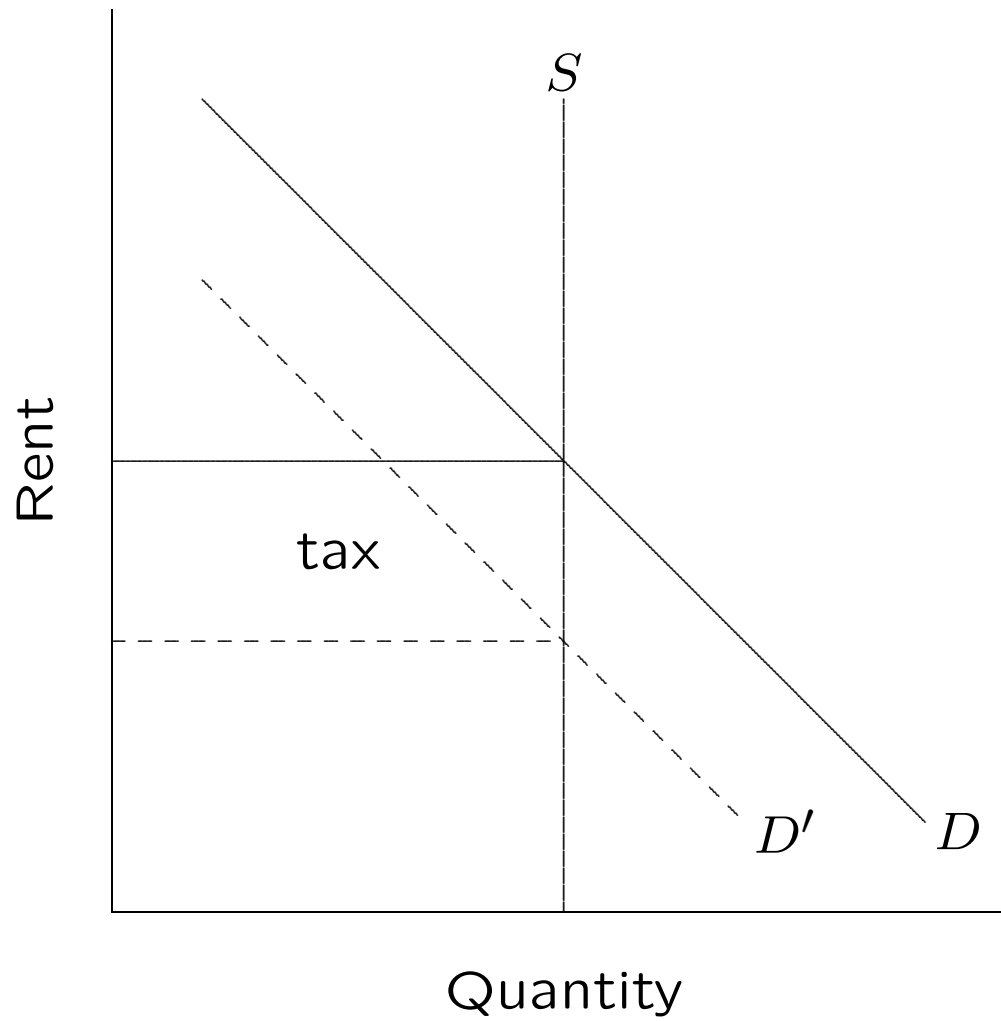


Figure 25.1: Effects of a tax on land rent

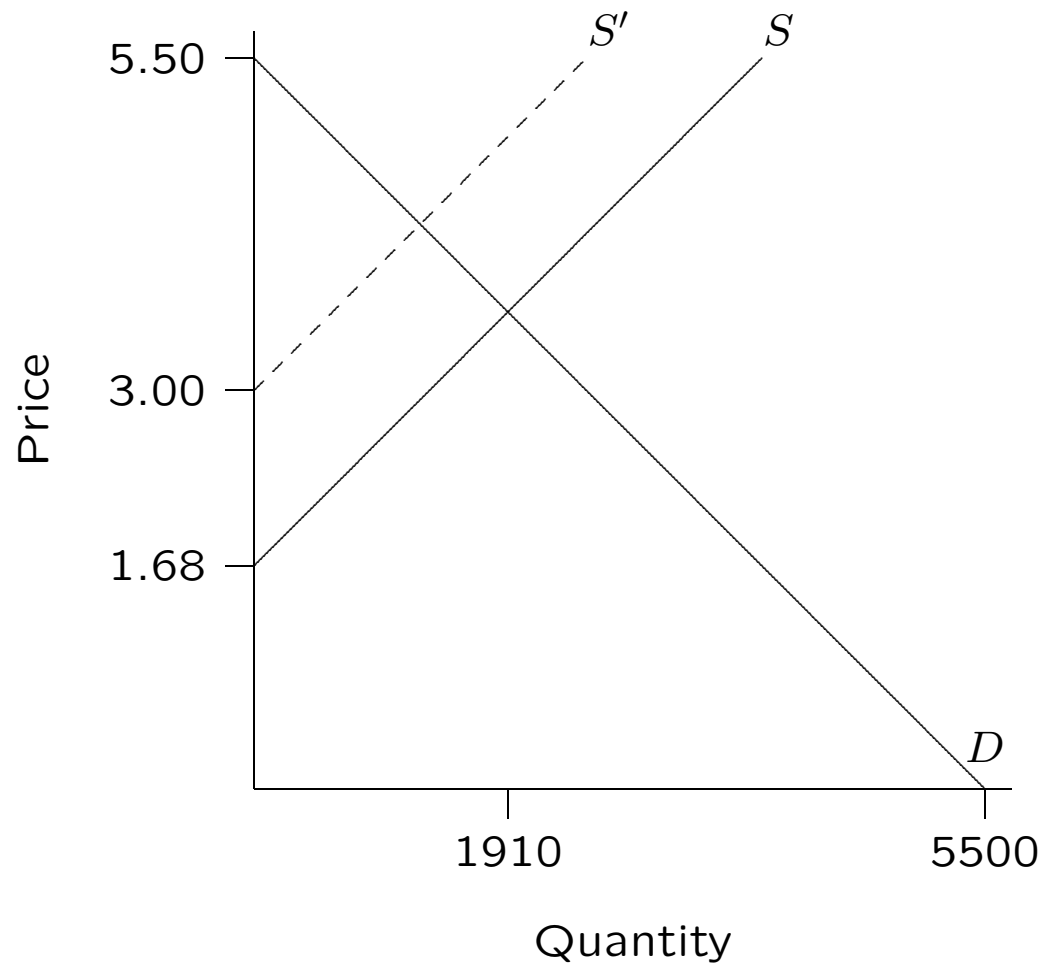


Figure 25.2: Effects of a tax on cigarettes

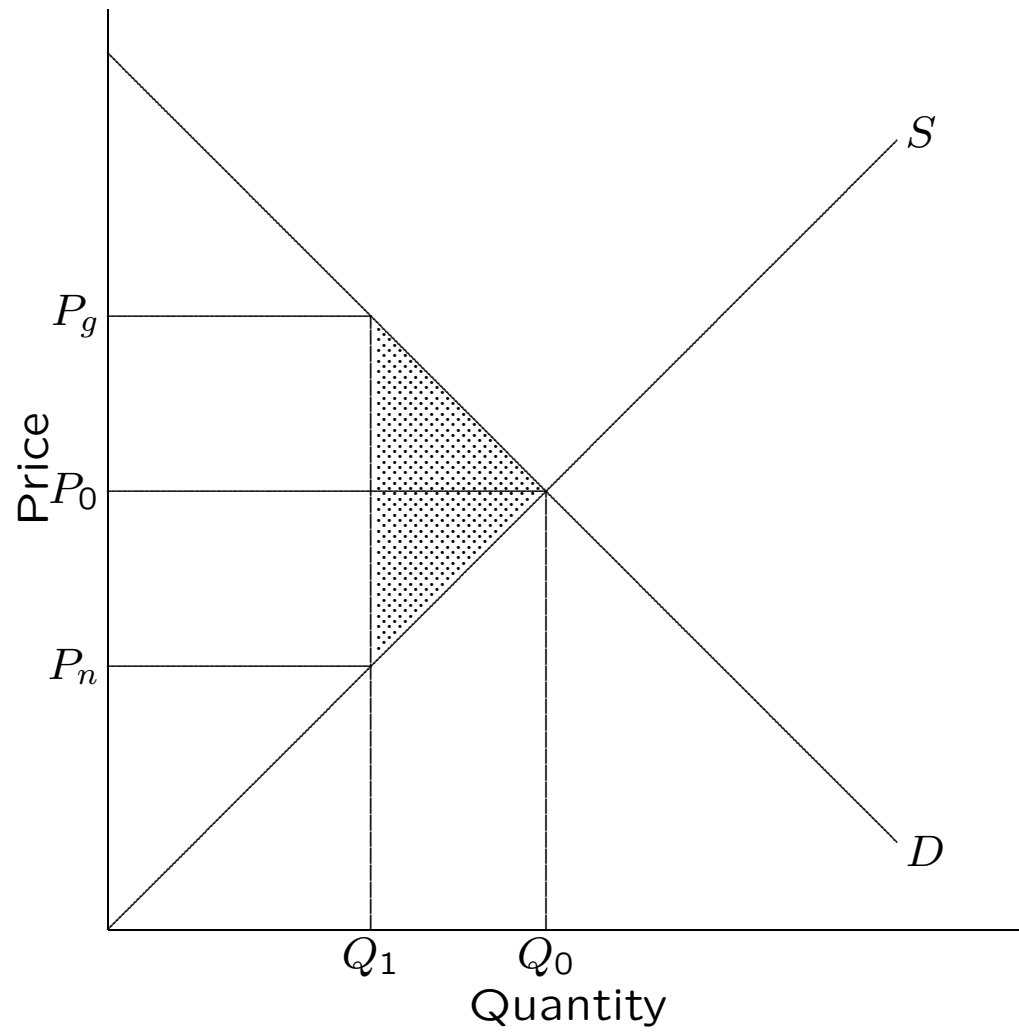


Figure 25.3: Welfare effects of a sales tax

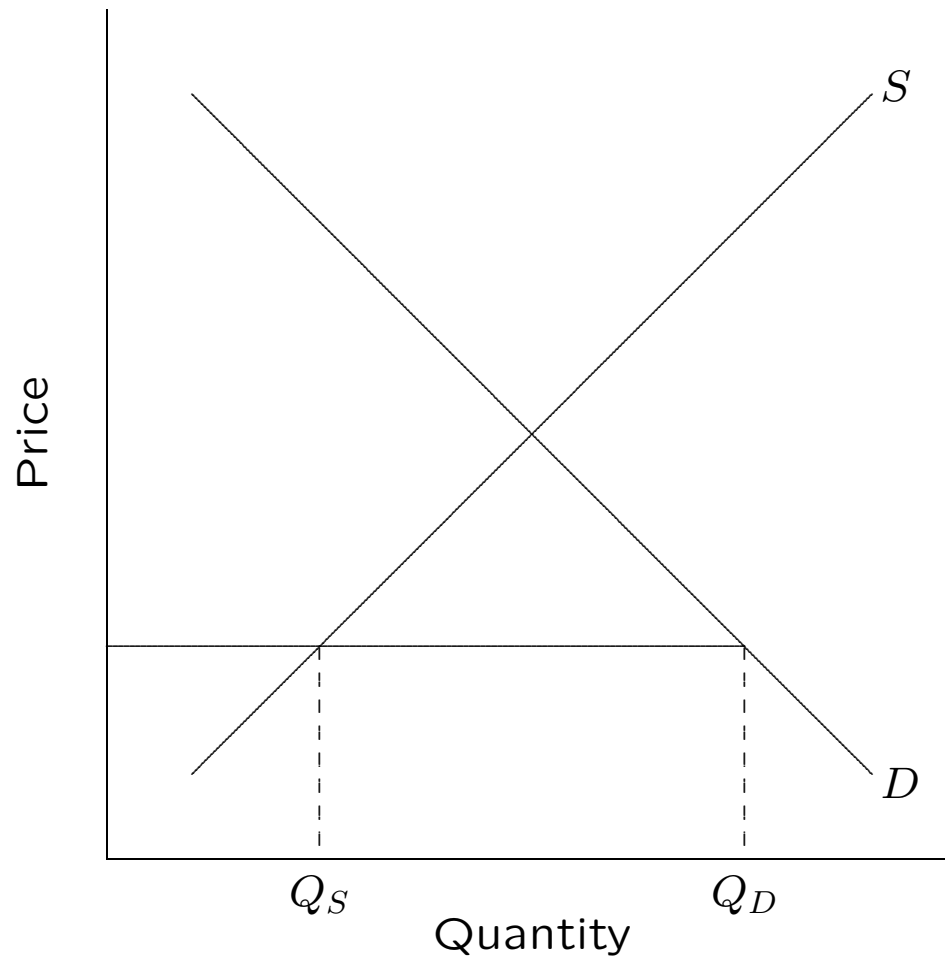


Figure 25.4: Effect of a price ceiling set below the equilibrium price

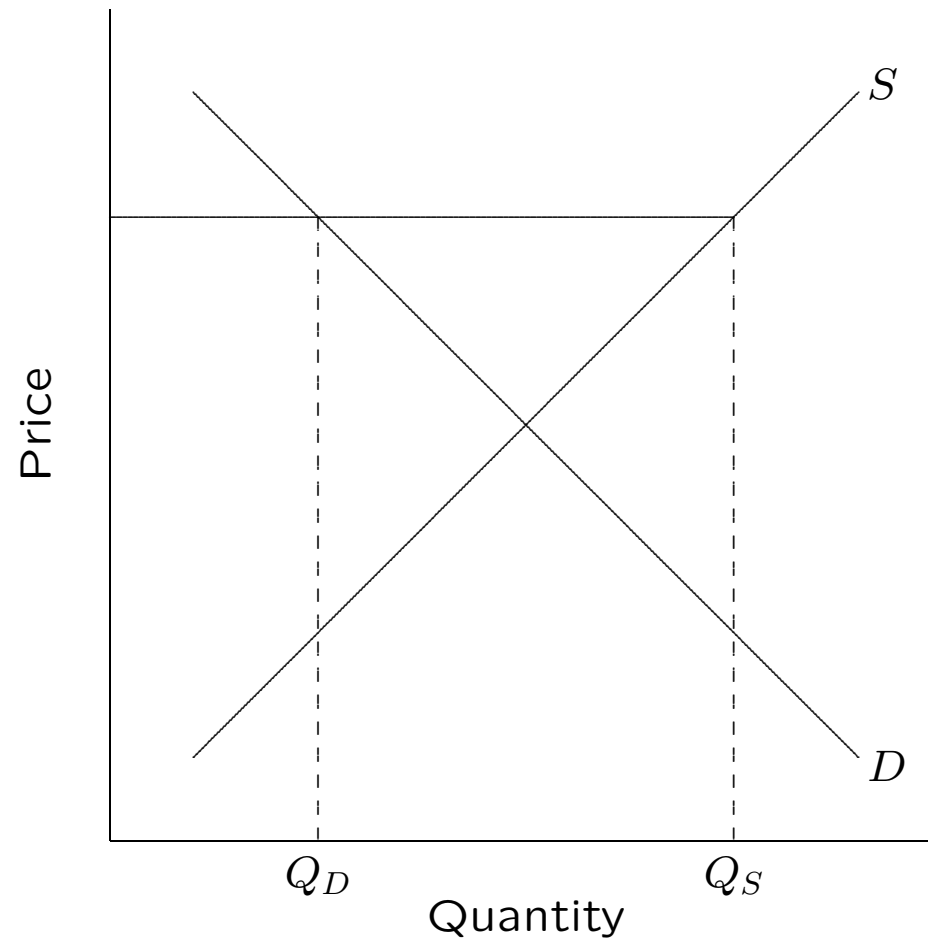


Figure 25.5: Effects of a price floor set above the equilibrium price

Table 25.1: Income distributions

Dist'n	Income level y_i for quintile $i =$					$\sum_{i=1}^5 y_i^n$ for $n =$				
	1	2	3	4	5	1	$\frac{3}{4}$	$\frac{1}{2}$	$\frac{1}{4}$	Min.
A	4	5	6	7	11	33	20.35	12.65	7.92	4
B	3	6	7	8	12	36	21.62	13.12	8.05	3
C	2	4	8	10	14	38	22.13	13.15	8.00	2
D	1	3	5	12	19	40	22.17	12.80	7.76	1
E	0	2	4	11	24	41	21.39	11.63	6.64	0

Table 25.2: Income and expenditure record

	Income	Donations	Consumption
Stage 1			0
Stage 2			
Stage 3 Round 1			
Stage 3 Round 2			
Stage 3 Round 3			0
Total consumption in all stages			