

Recitation #7 - (10/12/2018)

1. State the independence axiom. Show that if indifference curves in the Machina triangle are *not* parallel straight lines, then the independence axiom is violated.
2. Consider an individual with preferences over lotteries that satisfy the independence axiom. Answer the following questions.
 - (a) Show that the independence axiom implies convexity, i.e., for three different lotteries L , L' and L'' , if $L \succ L'$ and $L \succ L''$, then $L \succ \alpha L' + (1 - \alpha) L''$.
 - (b) Discuss why a decision maker whose preferences violate convexity can be offered a sequence of choices that lead him to a sure loss of money