Score: _____

1. Peter owns a lottery ticket. With this ticket he could win CZK 10,000 with a probability of 5%. Peter is willing to sell this ticket for CZK 500 or more. It follows that Peter is

A risk averse.

B risk seeking.

C risk neutral.

D We cannot tell.

2. Jane's preferences can be decribed by the following von Neumann-Morgensternovou utility function $p_1 w_1^2 + p_2 w_2^2$, where p_i is the probability of state i and w_i is wealth in state i. Jane is

A risk seeking.

B risk neutral.

C risk averse.

D Her preferences are not consistent with the assumption of independence.

3. Michael invests in a new field of business. Based on the latest information, he estimates that the expected utility (EU) of his investment equals 350. The result of the investment won't be known until two years. Desite of the fact that Michael has no problems fiw liquidity, he is willing to sell his investment for CZK 1 100 000 (certainty equivalent).

A Michael is risk neutral.

B Michael is risk averse.

C Michael is risk seeking.

D It is clear that Michael made a bad investment.

E None of the above follows from the available information.