

Economics of Risk: A short course

Lecturer: Richard Watt, University of Canterbury

July 14th- 15th 2014 ■ 9.00 - 15.00 ■ Sala de Recepcions

Faculty of Economics and Business, Universitat de Barcelona

Background

This is a course in microeconomic theory, as it relates to the study of problems under risk. In order to concentrate on the analysis of how risk affects decision making rather than complicating the mathematics, at all times the risk is kept at to the simplest possible representation, specifically, the only risks analysed are two-dimensional. In order to follow the course, students will need to have already studied a standard intermediate microeconomics course (especially, consumer theory), and they should also be comfortable working with mathematics at the undergraduate level. Without some basic mathematics, it becomes impossible to realistically talk about risk, and choices made in the face of risk, at least with any degree of conviction. Above all, students should be comfortable with standard algebra and calculus. Students should be comfortable with the concept of constrained maximisation, and they should know how to study such problems using Lagrangeans.

Course Outline

1. Introduction

- a) risk vs. certainty
- b) risk vs. uncertainty
- c) representation of probability and lotteries
- d) expected utility, and the expected utility theorem.



2. Risk aversion

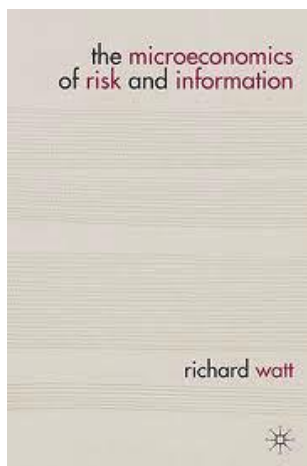
- a) concavity of utility
- b) the Marschak-Machina triangle
- c) the contingent claims environment, and indifference curves
- d) the risk-premium
- e) the Arrow-Pratt measure of risk aversion
- f) the slope of risk aversion
- g) risk aversion elicitation
- h) applications; demand for insurance, demand for risky assets

3. General Equilibrium

- a) the contingent claims Edgeworth box
- b) the contract curve
- c) some interesting results on risk sharing
- d) sharing an increase in aggregate risk

Recommended Text

The Microeconomics of Risk and Information, by R. Watt. Published by Palgrave Macmillan (2011).

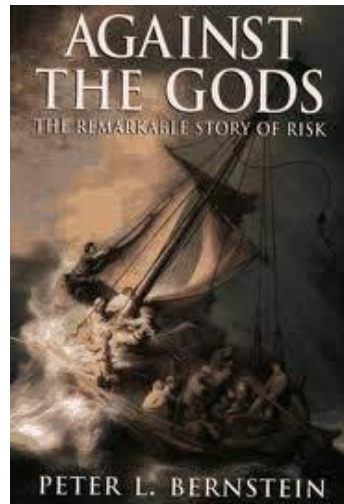
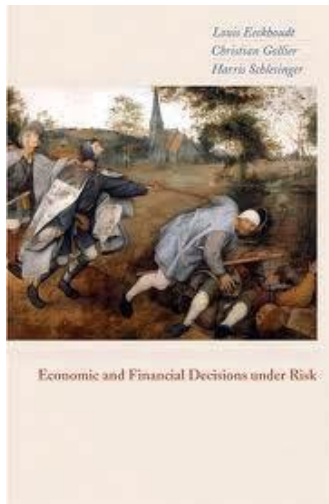


You will also find the following texts very useful and interesting

Economic and Financial Decisions Under Risk, by L. Eeckhoudt, C. Gollier and H. Schlessinger.

Published by Harvard University Press (2010)

Against the Gods: The Remarkable Story of Risk, by P. Bernstein. Published by Wiley



Registration

Confirm your attendance [HERE](#) before July the 4th.