p. 215:

α

**δ**

α

**δ**

α

**δ**

p3

**β**

p3

q

c

q

c

p2

p2

γ

q

c

p3

p2

γ

**β**

q

c

p3

p2

?

Figure 7.4.1. Testing the sure-thing principle

q

c

p3

**β**

q

c

p3

~

p2

γ

p2

?

Case 1. c ≥ **δ**

Case 2.  ≥ c ≥ **β**

Case 3. α ≥ c

r

r

r

p. 218:

.

.

.

.

.

.

p2

pm

x2

xm

pr

β

q2

qn

y2

yn

.

.

.

qr**´**

β

~

p2

pm

x2

xm

pr



q2

qn

y2

yn

.

.

.

qr**´**



?

and

Figure 7.5.1.

The superscript r indicates the rank of p, and is the same in the first and third prospect. The superscript r´ indicates the rank of q, and is the same in the second and fourth prospect.

p. 220:

Figure 7.6.1. w, z, and π

1−p

p

0

1

1

probability

z(1−p)

w(p)

Fig. a. The relation between w and its dual z.

probability

w(r)

π(pr)

r

0

1

1

p

w(p+r)

z()

π(p)

z(p+)

p

Fig. b. Deriving π from w and from z.  
 r + p + = 1.

w

Elucidation: This Figure was made using only MS Word. The curve in the two figures should be the same and was drawn by hand.p. 223:

p

0

left region;  
best ranks

1

probability

Figure 7.7.1. Likelihood insensitivity (inverse-S)

**insensitivity region**

1. Insensitivity region is middle, fat, part.

2. Middle weight (solid left fat brace) is small.

3. Left lower dashed brace is not compared  
 to left upper dashed brace.

right region;  
worst ranks

**p**

p

w

w

Elucidation: This Figure was made using only MS Word. The curve was drawn by hand.p. 224:

π(pw)

**π(pr)**

π(pb)

1–p

left region;  
(best rank  
region)

w

1

probability

Figure 7.7.1**´**. Figure 7.7.1 with notation added

**insensitivity region**

right region;  
(worst rank region)

p

0

wrb

brb

r+p

r

Elucidation: This Figure was made using only MS Word. The curve should be the same as the one in Figure 7.7.1.p. 226:

w

0

p

left region;  
best ranks

1

probability

Figure 7.7.2. Likelihood insensitivity (inverse-S) for a large outcome probability p

**insensitivity region**

right region;  
worst ranks

**p**

p

Elucidation: This Figure was made using only MS Word. The curve should be the same as the one in Figure 7.7.1.p. 227:

0

2q  
= wrb

q

1

1

Figure 7.8.1. Finding brb and wrb

0

= brb

Elucidation: This Figure was made using only MS Word. The curve was drawn by hand.p. 232:

Figure 7.12.1. Cavex functions with different levels of inflection points

1

t

0

0

1

Fig. a.

t

0

1

0

1

Fig. b.

t

0

1

0

1

Fig. c.

t

0

1

0

1

Fig. d.

Elucidation: This Figure was made using only MS Word. The curves were drawn by hand.

p. 235:

−50

½

½

−100

0

Fig. 8.1.1b. A choice between loss-prospects.

−50

½

½

−100

0

Fig. 8.1.1c. A choice between loss-prospects, but with an external side-payment.

100 +

50

½

½

0

100

Fig. 8.1.1a. A choice between gain-prospects.

Figure 8.1.1.

p. 240:

U

0

gains

losses

Fig. b. Utility U, obtained by “pulling u down” by a factor λ > 1 for losses.

u

0

gains

losses

Fig. a. The basic utility u, differentiable at x = 0.

Figure 8.4.1. Loss aversion

Elucidation: This Figure was made using only MS Word. The curves were drawn by hand.p. 242:

0

½

½

11

−10

Figure 8.6.1. Rabin’s preference

p. 249:

**reference dependence**

U\*(F)

I constant: inno­cuous rescaling of outcomes

F

*I* + α

***I* + ρ + α**

final wealth

initial wealth + outcome

**initial wealth + reference point + outcome**

U(α)

**U(ρ,α)**

**ρ variable: fundamental breakaway from classical model**

decomposition of final wealth F

interpretation

evaluation

classical model

Figure 8.9.1. Decompositions of final wealth

Bold printing indicates a fundamental breakaway from the classical model.

p. 255:

1/4

1/4

1/4

1/4

100

50

–50

–100

prospect x

1/4

1/4

1/4

1/4

100

50

0

0

prospect x+

1/4

1/4

1/4

1/4

0

0

–50

–100

prospect x−

Figure 9.3.1. x+ and x‑

p. 269:

If we replace the scaling u(1) = −u(−1) = 1 by the scaling u(0.01) = −u(−0.01), then we have to multiply the loss aversion parameter by 0.040/0.251; λ = 2.25 then turns into λ\* = 0.36.

1.0

0.5

0.1

0

0.5

1.0

U(α) = α0.3

U(α) = α0.7

0.01

0.251

0.040

α

U

Figure 9.6.1. Dependence of loss aversion on scaling of money

.

Elucidation: This Figure contains graphs of the functions as indicated, being

U(α) = α0.3

and

U(α) = α0.7.p. 270:

2.25−2.5

0

0.5

1

0

1

2

Figure 9.6.2. Anomaly for loss aversion

−U(−α) =

2.25 × α0.7

U(α) = α0.3

α

Elucidation: This Figure contains graphs of the functions as indicated, being

α0.3

and

2.25 x (α0.7).p. 281:

Figure 10.1.1. Ellsberg paradox

Arrows indicate majority preferences.

Ra

Ba

0

100

Fig. a.

Bk

0

100

Rk

Ra

Ba

100

0

Fig. b.

Bk

100

0

Rk

p. 281:

Figure 10.1.2. Home Bias

Arrows indicate majority preferences in the United States.

NK−

NK+

0

100

Fig. a.

DJ+

0

100

DJ−

NK−

NK+

100

0

Fig. b.

DJ+

100

0

DJ−

p. 284:

W(En ∪ ... ∪ E1)

−

W(En−1 ∪ ... ∪ E1)

W(E2 ∪ E1)

−

W(E1)

W(E1)

U(x2)

W(En ∪ ... ∪ E1) (= 1)

U(x1)

U(xn)

U(x3)

τ

...

Figure 10.2.1. Rank-dependent utility for uncertainty

Weight of  
 event of utility > τ

0

W(E2 ∪ E1)

W(En−1 ∪ ... ∪ E1)

. . .

This figure extends Figure 5.5.4 to uncertainty.

p. 293:

α

**δ**

α

**δ**

α

**δ**

E3

**β**

E3

A

c

A

c

E2

E2

γ

A

c

E3

E2

γ

**β**

A

c

E3

E2

?

Figure 10.4.1. Testing the sure-thing principle

A

c

E3

**β**

A

c

E3

~

E2

γ

E2

?

Case 1. c ≥ **δ**

Case 2.  ≥ c ≥ **β**

Case 3. α ≥ c

r

r

r

p. 302:

Figure 10.7.1. An implication of Anscombe & Aumann (1963) that is implausible under ambiguity aversion

~

Fig. a. Ambiguity aversion works against the right prospect.

1

40

1

40

h1

h2

½

½

100

0

1

40

~

h1

h2

⇒

Fig. b. Ambiguity aversion works against the left prospect.

h2

h1

½

½

100

0

½

½

100

0

h2

h1

½

½

100

0

1

40

p. 306:

FR**´**

.

.

.

.

.

.

E2

Em

x2

xm

ER

β

F2

Fn

y2

yn

.

.

.

β

~

E2

Em

x2

xm

ER



F2

Fn

y2

yn

.

.

.

FR**´**



?

and

Figure 10.9.1.

The superscript R indicates the rank of E, and is the same in the first and third prospect. The superscript R´ indicates the rank of F, and is the same in the second and fourth prospect.

p. 322:

RDU (U,W)

0.43 is risk premium due to U

RDU (U,w)

15.000

0.97 is additional risk premium due to unknown probability

EU (U)

14.570

EV

13.650

12.680

0.92 is additional risk premium due to w

2.32 is  
total risk premium under RDU(U,W)

*CE*

*Theory*

*Separate additions to risk premium*

Figure 11.3.1. Various components contributing to risk premium

p. 323:

RDU (U,W)

0.13 is risk premium due to U

RDU (U,w)

2.00

0.19 is additional risk premium due to unknown probability

EU (U)

1.87

EV

1.68

1.49

0.19 is additional risk premium due to w

0.51 is  
total risk premium under RDU(U,W)

*CE*

*Theory*

*Separate additions to risk premium*

Figure 11.3.2. Various components contributing to risk premium

p. 350:

Ra

Ba

0

100

+

Figure 12.5.1. Ambiguity aversion versus loss aversion

0

0

Rk

Bk

100

+−

0

Ra

Ba

−100

Fig. b. Prior endowment with ambiguous prospect, followed by choice to keep or exchange for unambiguous.

Arrows indicate majority preferences.

keep

exch-  
ange

Ra

Ba

0

100

Fig. a. A straight choice between ambiguous and unambiguous prospect.

Bk

0

100

Rk

p. 352:

Figure 12.6.1. Two prospects x, y

50 balls

50 balls

E1

E2

E3

E4

4000

4000

8000

4000

4000

8000

0

0

x

y

p. 353:

8000

4000

x

4000

4000

80000

4000

8000

y

4000

8000

4000

4000

4000

x´

y´

Figure 12.6.2. Six prospects

8000

4000

x´´

4000

8000

y´´

50 balls

50 balls

E1

E2

E3

E4

4000

4000

0

0

0

0

4000

4000

p. 368:

⅓

⅔

reject

accept

2nd-best job

search other job

best job

Figure B.1. Decision tree for job offer

p. 368:

best job

search other job

2nd-best job

1−p

p

Figure B.2. Determining utility of 2nd-best job

~

Determine probability p to give indifference.

p. 381:

0.7

0.8

0.3

0.2

100

0

49

40

1

2

3

Figure C.1. A dynamic decision tree

p. 382:

Figure C.2. A multistage prospect

1

½

½

½

100

0

0

0

2

3

½

½

p. 383:

0.6

0.7

0.4

0.3

60

0

20

20

1

2

3

Figure C.3. A dynamic decision tree

p. 388:

A

not-A

E1

En

.

.

.

x1

y1

A

not-A

xn

yn

A

not-A

.

.

.

.

.

.

x1

xn

E1

En

.

.

.

.

.

.

y1

yn

E1

En

.

.

.

~

Figure E.1. A dynamic illustration of multisymmetry

p. 388:

not-A

.

.

.

c1

cn

E1

En

.

.

.

~

A

A

not-A

Figure E.2. A dynamic illustration of act-independence

~

.

.

.

x1

xn

E1

En

.

.

.

implies

.

.

.

y1

yn

E1

En

.

.

.

.

.

.

x1

xn

E1

En

.

.

.

.

.

.

y1

yn

E1

En

.

.

.

.

.

.

c1

cn

E1

En

.

.

.