1. (Allais) You are offered the choice between the following two lotteries. Lottery A will give you $1 million with certainty. Lottery B will give you $5 million with probability 0.10, $1 million with probability 0.89, or nothing with probability 0.01. Which lottery do you choose and why?

- ___ Lottery A
- ___ Lottery B
- ___ Indifferent between them

2. (Ellsberg) There are two urns in front of you. You know that one of the urns (the Known urn) is filled with 50 red balls and 50 black balls. You do not know how many balls of each color the other urn (the Unknown urn) contains. Before drawing from an urn, you announce a color. If the ball you draw from the urn matches the color that you selected, you win $100. Which urn would you prefer to draw from and why?

- ___ Known urn
- ___ Unknown urn
- ___ It makes no difference

3. (Zeckhauser) You have been forced to play a game of Russian Roulette. The revolver has six chambers and is loaded with two bullets. Before you spin the cylinder, you are given the opportunity to have both bullets removed. Suppose you are willing to pay $1 million to have this done. Now you have been forced to play a new game of Russian Roulette. The revolver still has six chambers, but now four of them are loaded with bullets. How much would you be willing to pay to have one bullet removed from the cylinder before playing and why?

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Quantitative Reasoning 26
Decisions, Games, and Negotiation

Activity for March 23, 2005 lecture

1. (Allais) You are offered the choice between the following two lotteries. Lottery 1 will give you $5 million with probability .10 or nothing with probability .90. Lottery 2 will give you $1 million with probability .11 or nothing with probability .89. Which lottery do you choose (and why)?

____ Lottery 1
____ Lottery 2
____ Indifferent between them

2. (Ellsberg) There are two urns in front of you. You know that one of the urns (the Known urn) is filled with 50 red balls and 50 black balls. You do not know how many balls of each color the other urn (the Unknown urn) contains. Before drawing from an urn, you announce a color. If the ball you draw from the urn matches the color that you selected, you win $100. Which urn would you prefer to draw from and why?

____ Known urn
____ Unknown urn
____ It makes no difference

3. (Zeckhauser) You have been forced to play a game of Russian Roulette. The revolver has six chambers and is loaded with four bullets. Before you spin the cylinder, you are given the opportunity to have one bullet removed. Suppose you are willing to pay $1 million to have this done. Now you have been forced to play a new game of Russian Roulette. The revolver still has six chambers, but now only two of them are loaded with bullets. How much would you be willing to pay to have both bullets removed from the cylinder before playing and why?

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