COURSE ECO3054 INSTRUCTOR Luke Boosey

TODAY'S SUBJECT Alternative Theories DATE 3/23/17

* The overall value of the prospect is calculated by weighting the value function for each outcome $v(x_i)$ by the decision weight associated with the outcome's probability $\pi(p_i)$, where p_i is the probability of the outcome x_i. Thus

$$V(\tilde{p}) = \sum_i \pi(p_i) v(x_i)$$

- There are 4 key elements of prospect theory:
  1) reference dependence
  2) loss aversion
  3) diminishing sensitivity
  4) probability weighting