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On the intensity of downside risk aversion. (English) Zbl 1151.91428

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Summary: The degree of downside risk aversion (or equivalently prudence) is so far usually measured by $-\frac{U'''}{U''}$. We propose here another measure, $\frac{U'''}{U''}$, which has specific and interesting local and global properties. Some of these properties are to a wide extent similar to those of the classical measure of absolute risk aversion, which is not always the case for $-\frac{U'''}{U''}$. It also appears that the two measures are not mutually exclusive. Instead, they seem to be rather complementary as shown through an economic application dealing with a simple general equilibrium model of savings.

MSC:

91B16 Utility theory

Cited in **26** Documents

Keywords:

Downside risk aversion; Measure; Intensity

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