

**TABLE 4.12** Expected Utility for Two Choice Problems

	Probability	Value	Expected Utility (Probability × Value)	Common Choice
PROBLEM 1: RISK AVERSION FOR GAINS				
Option 1: You win \$500.	1.00	\$500	\$500	Approximately 75% of people choose this option.
Option 2: You have a 25% chance of winning \$2,500 (and a 75% chance of winning nothing).	0.25	\$2,500	\$625	
PROBLEM 2: RISK SEEKING FOR LOSSES				
Option 1: You lose \$500.	1.00	−\$500	−\$500	Approximately 75% of people choose this option.
Option 2: You have a 25% chance of losing \$2,500 (and a 75% chance of losing nothing).	0.25	−\$2,500	−\$625	

Source: Kahneman and Tversky (1979).

