

Q3: (C)

additional solution

$$\text{for } U(W) = aW - BW^2 \quad a > 0, B > 0$$

We know that

$$U'(W) > 0 \rightarrow W < \frac{a}{2B}$$

when $a \uparrow \rightarrow$ then we have the larger domain of W .

that satisfies the $U'(W) > 0$.

also

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$$\text{From } R(W) = \frac{2B}{a - 2BW}$$

$$\frac{\partial R(W)}{\partial a} = \frac{-2B}{(a - 2BW)^2} < 0$$

$$R_r(W) = \frac{2BW}{(a - 2BW)^2}$$

$$\frac{\partial R_r(W)}{\partial a} = \frac{-2BW}{(a - 2BW)^3} < 0$$

If $a \uparrow$, we decrease the level of risk aversion
(Both absolute and relative).

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