**Microeconomics Essay**

**Question**: What is the prospect theory? What is the difference between prospect theory and the expected utility theory? What is its application?

**Deadline**: 13 December, 12:00 PM (Monday in Week 10)

**Word Limit**: No more than 2500 words, including appendix but excluding tables, graphs, equations, and reference.

**Requirement**: Make it an “academic” review paper! It should contain a title page with abstract, an introduction section, the main body, a conclusion section, and reference. If you are not sure about the format, please refer to papers in the reading list below. You may choose any reference styles, but I prefer the Harvard Style. A guide is attached in the email.

**Core Reading**:

Varian, *Microeconomic Analysis*, chapters 11.

(Note: one copy available in the college library; more in the Economics Department)

Kahneman, D. & Tversky, A. (1979), ‘Prospect theory: An analysis of decision under risk’, *Econometrica* 47(2), 263–292.

(Note: all papers can be found via SOLO; it is natural that you don’t understand all the materials; don’t panic; stick to what you understand)

**Additional Reading**:

Allais, M. (1953), ‘Le comportement de l’homme rationnel devant le risque: critique des pos-tulats et axiomes de l’ ́ecole am ́ericaine’, *Econometrica: Journal of the Econometric Society*, pp. 503–546.

(Note: an interesting reading as long as you understand French)

Benartzi, S. & Thaler, R. H. (1995), ‘Myopic loss aversion and the equity premium puzzle’*, The Quarterly Journal of Economics* 110(1), 73–92.

Kahneman, D. & Tversky, A. (1984), ‘Choices, values, and frames’, *American Psychologist* 39(4), 341–350.

Mehra, R. & Prescott, E. C. (1985), ‘The equity premium: A puzzle’, *Journal of Monetary Economics* 15(2), 145–161.

Tversky, A. & Kahneman, D. (1992), ‘Advances in prospect theory: Cumulative representation of uncertainty’, *Journal of Risk and Uncertainty* 5(4), 297–323.