

TRUE FALSE

1. A person's willingness to participate in a lottery is generally a linear function of the expected gain.

2. Utility theory is able to determine which option a person would choose in a given situation, without any prior knowledge about that person.

1. This is false: it is rather the perception (which is not a linear function) of the expected outcome that influences the person's choice.

2. This is false: The theory cannot (of course) determine which preferences any given person might have for various outcomes. However, *given* the preferences, the theory does determine which choice a person should make (note, however, that there are competing theories, e.g. prospect theory).