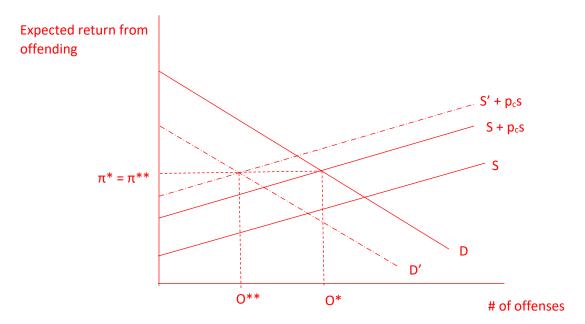_____Name

1.) (12 points) Consider a market for crime with victims. First, graph the demand for offending, supply of offenses, and the supply of offenses gross of sanctions curves. Second, suppose potential victims start exercising greater caution; and, at the same time, legal wages rise, increasing the opportunity cost of crime. Illustrate what happens to the equilibrium level of offending and the equilibrium expected return from offending.

Expected return from offending

$S' + p_c s$

$S + p_c s$

S

$\pi^* = \pi^{**}$

D

D'

O^{**} O^*

\# of offenses

Supply and demand both shift inward. As a result, the equilibrium level of offending falls, while the effect on the expected return from offending is theoretically ambiguous.

2.) Indicate whether the below utility functions of income belong to risk neutral, risk seeking, or risk averse individuals (circle one).

a.) (2 points) $U(I) = I + (.001)I^2$. (i) risk neutral; (ii) risk seeking; (iii) risk averse
risk seeking

b.) (2 points) $U(I) = \ln(I)$. (i) risk neutral; (ii) risk seeking; (iii) risk averse
risk averse

c.) (2 points) $U(I) = I^\alpha$ where $0 < \alpha < 1$. (i) risk neutral; (ii) risk seeking; (iii) risk averse
risk averse

d.) (2 points) $U(I) = 10I$. (i) risk neutral; (ii) risk seeking; (iii) risk averse
risk neutral