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"Decreasing relative risk premium and risk vulnerability"

Abstract

We study attitudes towards risk such that the relative risk premium is a decreasing function of present wealth, and we show that these attitudes are canonically represented by the so called 2-monotone functions.

This representation theorem implies that the absolute risk aversion is a decreasing function of wealth vanishing in infinity. We find a new description of risk vulnerability and show that the positive operator monotone functions defined in the positive half-axis are risk vulnerable. The result gives a wealth of new risk vulnerable utility functions.

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