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Safety First — An Expected Utility Principle

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Extract

The theory of choice under conditions of certainty has been extended by Von Neumann and Morgenstern [8], Friedman and Savage [5], Marschak [13], and others to conditions involving risk by assuming that individuals maximize their *expected* utility. The application of this theory to portfolio selection, to efficiency criteria, and to the explanation of the well-known phenomenon of diversification of assets has been carried further by Markowitz [11 and 12], Tobin [17], Samuelson [15], Sharpe [16], and Lintner [10], and more recently by Hadar and Russell [5] and Hanoch and Levy [8].

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