

**RISK AVERSION BEHAVIOR.  
RELATIONSHIPS BETWEEN RISK AVERSION,  
PRUDENCE AND CAUTIOUSNESS**

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*ABSTRACT: This paper defines decreasing absolute risk aversion in purely behavioral terms without any assumption of differentiability and shows that a strictly increasing and risk averse utility function with decreasing absolute risk aversion is necessarily differentiable with an absolutely continuous derivative. A risk averse utility function has decreasing absolute risk aversion if and only if it has a decreasing absolute risk aversion density, and if and only if the cumulative absolute risk aversion function is increasing and concave. This leads to a characterization of all such utility functions. Analogues of these results also hold for increasing absolute and for increasing and decreasing relative risk aversion.*

*Keywords: risk aversion, prudence, cautiousness*

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