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Prof. Aldo Montesano
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Università Commerciale Luigi Bocconi
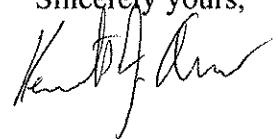Via Röntgen 1
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Dear Prof. Montesano:

Thank you for your letter of 16 July and the attached reprint on Bruno de Finetti's

development of a measure of risk aversion. From your account, his priority over the

work of Pratt and of myself is very clear. The argument proceeds along essentially the

same lines, and de Finetti is, of course, twelve years earlier. If the question ever comes

up, I shall call attention to his work. I take it as a compliment to have worked unknow-

ingly along the same lines as Bruno de Finetti.

Let me ask you about an interpretation of the work of de Finetti's that most of us

know best, his (1937?) Poincaré lectures, which interpreted probabilities as the offer

prices of (small) bets chosen so as to prevent anyone else from making a positive profit

for sure by choosing an appropriate subset. (I learned about the existence of this work

from Leonard J. Savage,) I used to teach this in class. I realized however there was a

problem in interpreting these odds as probabilities (though, of course, they satisfied all

the axioms of probability theory). Suppose the initial wealth of the bettor was a random variable (a function of the states on which the bets were to be placed). Then the odds chosen by our representative bettor are not ratios of probabilities but proportional to probabilities multiplied by marginal utilities. These are what are known in the finance literature today as "risk-neutral" probabilities, but they are not anyone's ideas of probabilities. Did de Finetti recognize this point?

Thank you again for sending me your paper.

Sincerely yours,