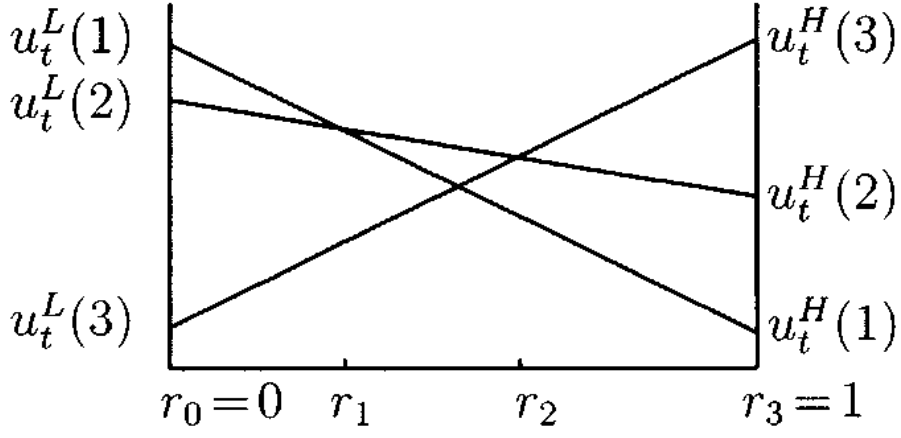

FIGURE 1.—Expected payoff frontier. The diagram depicts the expected payoff of each of three actions as a function of the posterior belief r that the state is H. A rational individual simply chooses the action yielding the highest payoff. Here 2 is an insurance action, and 1 and 3 are extreme actions.