

28. Correct. The answer is true. Assume if Carol dies, her loss is V and if she lives, her loss is 0. The expected loss (L) is $L = 0.0001*V + 0.9999*0$. If Carol is willing to take the above expected loss for \$500, she is setting her expected loss equal to \$500 or $0.0001*V + 0.9999*0 = \$500$. Solving for V gives the implicit value (V) she is giving to her life or $V = \$500/0.0001 = \$5,000,000$.