A small but effective model of risk

Soumadeep Ghosh

Kolkata, India

Abstract

In this paper, I describe a small but effective model of risk.
The paper ends with "The End"

Introduction

Effective models of risk are **difficult** to produce because they require an R^2 that is neither so low that the model is **impractical** nor so high that the model can be **exploited**.

Moreover, a model of risk is required to be **small** in terms of independent variables so that the model may be **tractable**.

In this paper, I describe a small but effective model of risk.

A small but effective model of risk

A small but effective model of risk with the specification

$$y = \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 X_5 + +\epsilon$$

where

y is **World Risk Index** of the nation (0-100)
X_1 is **Gold reserves** of the nation in thousand tonnes
X_2 is **GDP annual growth rate** of the nation
X_3 is **Government debt-to-GDP** of the nation
X_4 is **Interest rate** in the nation
X_5 is **Corporate tax rate** in the nation
ϵ is the residual

is available here.

The End