

Paper #3

Question 1. (easy)

In 1992, James Dow and Costa Werlang wrote a paper and show that, when an investor face uncertainty, they might not hold any position in the market.

Do you think you can use their proposition to explain the result of this paper?

Question 2. (hard)

In the undergraduate investment class, we learned about the efficient frontier under the mean-variance framework, and we also learned that, even if all the risky assets are extremely risky, people still choose the optimal risky asset portfolio.

But this paper analyze the case where there are some people who doesn't hold any position in the stock market. So I wonder why we have never learned about this kind of case in the undergraduate investment courses?

And I also wonder, uncertainty and risk, are they the same things?