L02 QUIZ

Q1. What is Value at Risk?

Value at Risk is a metric generally used by companies to estimate the potential loss of an investment or portfolio.

Eg- 5% probability to lose $10M in a year

Q2. How was VaR a main reason for the 2008 crisis?

Value at Risk or VaR was a main reason for the 2008 crisis because people were bringing investors into the company, being too optimistic, for example, there’s only 7% of this happening, which later led to a series of losses and ultimately contributed a big part to the 2008 crisis.

Q3. Mathematically explain how can large number of investments can reduce risk?

If we have multiple or a large number of investments, we are well aware stard deviation has 1/n part, which means as n increases, the standard deviation will decrease, it would ultimately average out, and we would not be left with much uncertainty (or deviation), which means **the lower the standard deviation, the lower the risk.**