[Glossary]

Conventional Tools to Handle Risk

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Unit No. & Title:	Unit – 3 Incorporating Risk in Projects
Lecture No. & Title:	Lecture – 1 Conventional Tools to Handle Risk

Glossary

Uncertainty: Uncertainty implies a situation where the future events are not known.

Risk: "In the context of project appraisal, the terms 'risk' and 'uncertainty' are usually used synonymously. Risk describes a situation where there is not just one possible outcome but there is a possibility of occurrence of an array of potential returns."

Conventional tools to handle risk are associated with project.

Conventional tools to handle risk are

Risk Adjusted Discount Rate

Certainty Equivalent and

Sensitivity Analysis

Sensitivity analysis: A technique of risk analysis that can be used to study the responsiveness of a criterion of merit like NPV or IRR to variation in underlying factors such as selling price, quantity sold etc.

Risk Adjusted Discount Rate: An estimation of the present value of cash for high risk investments is known as **risk-adjusted discount rate**.

Certainty Equivalent: Certainty equivalent is a guaranteed return that someone would accept, rather than taking a chance on a higher, but indecisive, return.

Net Present Value: An approximate future outcome on an investment project is evaluated by its Net Present Value (NPV)