



[Frequently Asked Questions]

Statistical Tools to Handle Risk

Subject:	Business Economics
Course:	B. A. (Hons.), 5 th Semester, Undergraduate
Paper No. & Title:	Paper – 551 Elective PaperP1 – Project Management
Unit No. & Title:	Unit – 3 Incorporating Risk in Projects
Lecture No. & Title:	Lecture – 2 Statistical Tools to Handle Risk

Frequently Asked Questions

Q1. Which are statistical tools of incorporating risk?

A1.

- Probability,
- Standard Deviation
- coefficient of variation,
- Probability Distribution (including dependent, independent and decision tree techniques)

Q2. Basic condition for probability analysis:

A2. There is an array of potential future returns.

Managers know the probabilities of each of such possible future returns.

Q3. What is relative measure in Coefficient of Variation method?

A3. If the projects to be compared involve different outlays/different expected value, the coefficient of variation is the correct choice, being a relative measure.

Q4. Critically discuss issues with abandonment options.

A4.

- The company does not have the option to delay the project.
- The company may abandon the project after a year, if the customer has not adopted the product.

Q5. What is decision tree technique for investment proposal in project?

A5. In this method, a decision tree is constituted to give a better presentation of related information connected with an investment

proposal. Investment decisions in practice are quite complicated, especially because the outcomes are not certain.

Q6. What is real option analysis?

A6. Real options exist when managers can influence the size and riskiness of a project's cash flows by taking different actions during the project's life.

Q7. What is project termination?

A7. Project Termination is a situation when a given project is supposed to be closed or finalized because there's no more need or sense for further continuation.

Q8. Issues with abandonment options

A8.

- The company does not have the option to delay the project.
- The company may abandon the project after a year, if the customer has not adopted the product.

Q9. What is project termination?

A9. Due to some unavoidable or technical reasons it would not possible to carry or continue with the project is known as project termination.

Q10. Explain major four types of project termination

A10. Four Varieties of Project Termination

"Termination by extinction"

"Termination by addition"

"Termination by integration"

"Termination by starvation"