[Glossary]

Statistical Tools to Handle Risk

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Unit No. & Title:	Unit – 3 Incorporating Risk in Projects
Lecture No. & Title:	Lecture – 2 Statistical Tools to Handle Risk

Glossary

Statistical tools of incorporating risk?

- Probability,
- Standard Deviation
- coefficient of variation,

Probability Distribution (including dependent, independent and decision tree techniques

Basic condition for probability analysis :

There is an array of potential future returns.

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

Standard deviation for risk analysis

The assignment of probabilities and the calculation of the expected net present value include risk into the investment decision, but a better insight into the risk analysis of capital budgeting decision is possible by calculating standard deviation and coefficient of variation.

Definition of Coefficient of Variation for project

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

Decision tree analysis:

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

Real option analysis

Real option analysis incorporates typical Net Present Value (NPV) budgeting analysis with an analysis for opportunities resulting from managers' decisions.

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.

Issues with abandonment options

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.