Lecture Notes 5

Uncertainty, Characterizing the Return Distribution, and Investor Preferences

I. Readings and Suggested Practice Problems

II. Dealing with Uncertainty and Risk

III. How to calculate Expected Return

IV. How to calculate the Variance and Standard Deviation of Return

V. How to calculate the Covariance and Correlation between Two Returns

VI. The Normal Distribution

VII. Investor Preferences under Uncertainty

VIII. Appendix A: Some Useful Probability Rules

IX. Additional Readings

Buzz Words: Probability Model, Value-at-Risk (VaR), Utility Theory
I. **Readings and Suggested Practice Problems**

BKM pp. 940-945, 948-969.
BKM Chapter 5: Section 5.2.
BKM Chapter 6.

*Suggested* Problems, Chapter 5: 4, 12-15, Chapter 6: 1, 6, 10.