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## **RISK FACTORS AND UNCERTAINTIES IN THE ECONOMY**

*Abstract: This article discusses risk factors and uncertainties in economics.*

*Key words: economics, market, risk, uncertainty, market laws*

## **ФАКТОРЫ РИСКА И НЕОПРЕДЕЛЕННОСТИ В ЭКОНОМИКЕ**

*Аннотация: В этой статье обсуждаются факторы риска и неопределенности в экономике.*

*Ключевые слова: экономика, рынок, риск, неопределенность, рыночные законы*

An element of uncertainty often arises in economic activity, which may affect the position of an economic entity or the economic operation it carries out. Uncertainty lies in the lack of predictability of the consequences of the adopted economic decisions. It is believed that its measure can be probability, i.e. objectively determined degree of feasibility. Risk is defined as a state of knowledge when one or more outcomes for each alternative are known and the probability of the realization of each outcome is reliably known to the individual making the decision. Thus, we are talking about the fact that under conditions of risk there is an objective knowledge of the environment of actions, and the individual is able to predict the result for each of the possible alternatives. Uncertainty is understood as a state of knowledge when one or more alternatives have a number of possible outcomes, the probability of which is either unknown or does not make sense. Unlike risk, uncertainty is purely subjective. Each individual evaluates it in his own way. Therefore, the quantitative characteristics of uncertainty never coincide. This is due not only to the different level of their

knowledge, experience, temperament, approach to assessing the event, but also to the fact that changes in the market occur so often and quickly that it is sometimes impossible to determine with a sufficient degree of accuracy the economic and social environment of the subjects' actions. Entrepreneurial risk, as an expression of economic uncertainty, consists in the unpredictability of future results, the possibility of obtaining both positive and negative results. Risks attract attention, first of all, due to the danger of undesirable circumstances occurring, one of the outcomes of which may be serious losses. Failure to accurately predict the fate of a decision made by an entrepreneur can lead to large losses. The term "risk" first appeared in the French economic lexicon. It means doubt, doubtful. Since the XX century, it is widely used in scientific and business literature. As an economic category, risk expresses a contradictory economic attitude. On the one hand, it is a sign of hope, expectation of success. In this case, it serves as an incentive for entrepreneurial activity.

On the other hand, it is alarming, creates the danger of negative consequences, thereby holding back entrepreneurial initiative. Yet risk is an integral part of entrepreneurship. It is the result of entrepreneurial decisions and actions. It cannot be perceived only as a negative phenomenon. It contains both the chance of gain and the chance of loss. They take risks with the expectation of not missing out on benefits. Risk is inevitable in entrepreneurship. It reflects the situation in business when it is necessary to make choices in conditions of uncertainty. Such situations occur frequently. Usually the choice comes down to two main types: 1) to carry out a less attractive, but more reliable action; 2) stop at a more attractive, but less reliable action. Entrepreneurial risk stems from fluctuations in the markets for raw materials and finished goods, unforeseen changes in fashion, new inventions, the invasion of new and strong competitors in their respective areas, etc. Circumstances often push you to take risks. Business goes to him, seeing no other way out. Risk aversion can even lead to

bankruptcy. In a number of sectors of the economy, risk occupies a special place. Lending and insurance activities, venture business engaged in the development and implementation of risky ideas and projects are built on risk. Venture (risky) business is usually represented by a segment of activities carried out most often in new promising industries. It is aimed at finding know-how, new economic, technical and technological solutions that increase production efficiency in order to increase profits. This business involves a lot of risk. The share of risk is high in speculative exchange transactions, which are carried out in the hope of obtaining high profits. However, there is another category of risk, the burden of which falls only on the person working with borrowed capital, and on no one else; this type of risk can be called personal risk. The fact is that whoever lends capital must charge a high percentage of it as insurance against a possible flaw or defect in the personal character or personal abilities of the borrower. The borrower may be less capable than it appears, less energetic or less honest. He lacks the incentives that a man working with his own capital does to look failure right in the eye and exit a speculative venture as soon as it shows signs of danger. On the contrary, if his ideas about honesty are not very high, he may not be very worried about his losses. The fact is that if he immediately terminates the business, he will lose everything that belongs to himself, but if he continues speculative business, any additional loss will fall on his creditors, and all possible profit will go to himself. The theory of capitalist economics sees risk as a justification for business profit. The American economist Frank Knight is considered the founder of the theory of risk. In his opinion, profit is a payment for risk, for possible losses arising in conditions of market uncertainty. Profit is directly related to unpredictable risk. It goes to the most gifted entrepreneurs who are able to foresee and, on this basis, take risks in the most difficult situations. Now this concept is being contested. F. Knight distinguishes between countable and uncountable risks. He attributes calculable risks to risks proper, and connects uncountable risks to uncertainty. The most

typical cases of quantifiable risk are situations where the risk is predictable in advance, for example, gambling, in which specific shares of probability are known. Let's say a dice game presupposes that one of their sides will fall out with a probability of  $1/6$ . Or, for example, situations in which there is a certain statistical probability, in particular, the probability of a particular person to live to a certain age. All these risks can well be identified and insured. However, there are cases of uncertainty in the economy that cannot be insured.

Such situations are encountered on a daily basis in the life of an enterprise. They are also called situations of true uncertainty. F. Knight attributes this uncertainty to every capitalist enterprise. It cannot be insured, nor capitalized, nor paid. Such uncertainty exists both in the field of production, where the quantity and quality of products obtained from a specific volume of resources is by no means guaranteed, and in the field of the needs of the future buyer. Business, after F. Knight, does not know in advance the price at which he will be able to sell his goods, but is obliged to immediately pay off the owners of the resources acquired by him to ensure the production process. Uncertainty lies in the fact that the business expects to receive a certain amount on top of its own production costs. However, the reality is such that in some cases he can get it, in others he cannot. Then he either makes a profit or suffers a loss. The concept of risk and uncertainty is associated with the theory of marginal utility, since within the framework of uncertainty, the amount of entrepreneurial income is still determined by the value of the marginal productivity of entrepreneurial abilities. This is the share of factor income that comes as a reward for the use of its resource potential. It is noteworthy that a pessimistic business, according to F. Knight, has a higher probability of making a profit than an optimist, who is actually doomed to a loss. Entrepreneurial profit is a matter of foresight and willingness to take risks, and entrepreneurship itself is a special kind of economic function, consisting in bringing supply in line with demand in various

commodity markets. Thus, profit looks like a reward to an entrepreneur for bearing the burden of uncertainty.

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