

Nalanda Open University

Department of Economics

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- Course – BA Economics (Part –I)
- Paper – I (Micro Economics)
- Topic – Theory of Risk and Types of Risk

Definition of Theory of Risk

- An American Economist 1st propounded the concept of Risk Theory of Profit.
- Book 'Enterprise and Productive Process'
- Function of entrepreneur is to undertake risk.
- Risk is the reward as profit.
- New entrepreneur take only risk to when he get some reward in return.

Definition of Theory of Risk

In the words of Prof. Hawley 'The profit of an undertaking is not the reward of management or co-ordination but of the risk and responsibilities'.

Thus Higher the Risk Higher the return and Profit.

Conversely, avoid the risk lower the profit.

Kinds of Risks

Kinds of Risk defined by Prof. Hawley

Replacement Risk

Risk Proper

Uncertainty

Obsolescence

Criticism of Theory of Risk

- Profit arises not because of risk but due to higher rank officers are able to reduce this risk.
- Profit is not the reward of every type of risk.
- There is no correlation of risk taking and profit earning as because both are of different nature.