ORDERINGS AND RISK PROBABILITY FUNCTIONALS IN PORTFOLIO THEORY

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Abstract: This paper studies and describes stochastic orderings of risk/reward positions in order to define in a natural way risk/reward measures consistent/isotonic to investors’ preferences. We begin by discussing the connection between the theory of probability metrics, risk measures, distributional moments, and stochastic orderings. Then we examine several classes of orderings which are generated by risk probability functionals. Finally, we demonstrate how further orderings could better specify the investor’s attitude toward risk.

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The full text is available here