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**THE THEORETICAL SUBSTANTIATION OF  
THE ECONOMIC ESSENCE OF THE  
CATEGORY "RISK"**

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**ТЕОРЕТИЧНЕ ОБГРУНТУВАННЯ  
ЕКОНОМІЧНОЇ СУТНОСТІ КАТЕГОРІЇ  
"РИЗИК"**

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*The foreign and domestic interpretations of the category "risk" are analyzed. The essence and nature of economic risk are investigated. The theory of Black Swans is analyzed. The definition of the category "risk" is proposed taking into account modern views and theories of foreign and domestic scientists, nature and peculiarities of risk.*

*Проаналізовано іноземні та вітчизняні трактування категорії «ризик». Досліджено сутність та природу економічного ризику. Проаналізовано теорію Чорних лебедів. Запропоновано визначення категорії «ризик» з огляду на сучасні погляди та теорії іноземних і вітчизняних вчених, природу і особливості ризику.*

**Keywords:** risk, economic risk, Black Swan, threat, vulnerability, consequence

**Ключові слова:** ризик, економічний ризик, Чорний лебідь, загроза, вразливість, наслідок

## INTRODUCTION

Risk assessment and management was created as a science branch about 30-40 years ago. Principles and methods for conceptualization, assessment and risk management are developed. These principles and methods are still largely the basis of this area today, but many achievements have been achieved, both with the theoretical platform and with practical models and procedures related [1].

## THE PURPOSE OF THE WORK

The purpose of this study is to review these achievements, paying particular attention to the basic ideas and thinking on which they are based. We were looking for trends in perspectives and approaches, and we are also contemplating where further development of risk areas is needed and should be encouraged. The work is written for a wide range of readers, not only for risk specialists.

## RESEARCH METHODS

Methodological and informational basis of work are scientific works, materials of periodicals, Internet resources.

## RESULTS

Economic risk is a complex and contradictory economic category. The risk exists independently of us and our knowledge of it. The concept of risk reflects actual phenomena and processes, most of which have a probabilistic nature, that is, the risk is of an objective nature.

At the same time, the risk is related to the need to select certain alternatives to decisions, and to calculate the probabilities of their results. In addition, the subjects of management perceive differently the same level of risk through their individual traits, which are reflected in the

notion of risk propensity. This is the subjective side of risk.

Etymologically, the word "risk" in different languages is associated primarily with the presence of danger and uncertainty in various areas of management and socio-economic life.

The term "risk" comes from Latin *rescō* – "cut off", "reduce" or ancient Greek. *ῥιζικόν* – "danger". In Italian, *rischio* is a danger, a threat; *risikare* – to advance among the rocks; in Spanish, *riesgo* – possibility of a mishap or misfortune, of someone or something suffering harm or damage; in the French – *risque* – a threat, risk (literally – to go around the rock).

Risk as an economic category arose at the dawn of civilization, when a person became aware of the possibility of emergence of unfavorable situations, cold, hunger, etc. Thus, at the household level of origin of risk, one way or another is connected with the awareness of danger, possible losses, threat, insecurity, ignorance, uncertainty and the like.

In modern economic literature, the notion of risk is differently interpreted. As a result of discussions in economic science there are two theories of risk: classical and neoclassical.

The classical theory, the most prominent of which is J.S. Mille and N.U. Senior, examining business profits, distinguishes in the structure of entrepreneurial income two components:

- 1) interest as a share in invested capital;
- 2) payment of a risk as a reimbursement of possible risk associated with entrepreneurial activity.

According to this theory, the risk is identified with the expectation of losses that may occur as a result of the implementation of a solution. From an economic point of view, the risk in this theory is nothing more than a possible material damage that can be caused by the implementation of a solution.

Such an interpretation of the risk is one-sided. It caused the development of another theory, which was called neoclassical. This theory arose in the 20-30's of the twentieth century in England and France. Her representatives are F. H. Knight, A. T. Marshall (England) and A. S. Pigou (France). It is based on the following provisions: an uncertain company whose profit is a random variable, should be guided in its activities by such criteria as the size of the expected returns and the magnitude of its possible fluctuations. According to this theory, the behavior of an entrepreneur is conditioned by the concept of so-called marginal utility: if you want to choose one of two options for investing capital that give the same entrepreneurial profit, and then one should choose one of the options in which the fluctuations in profit will be lower. From this risk theory, it follows that a reliable profit always has greater utility than the profit of the same expected size, but is associated with probable fluctuations.

Nowadays none of these theories are used in their original form. The most relevant is the neoclassical theory of risk with certain additions of Keynes, who first systematized the theory of risk and gave a detailed classification of business risks, and added the neoclassical theory to the factor of "pleasure", the essence of which is that the entrepreneur, expecting more profit, most likely will go to a larger risk.

In the economic literature, the risk is considered from the point of view of possible material damage associated with the implementation of economic, organizational, technical solutions, accidents, natural disasters, bankruptcy, diminishing the value of shares, monetary unit, etc., as well as from the point of view of decision making, with profits.

The economic nature of risk means that risk is characterized as an economic category, occupying a certain place in the system of economic concepts associated with the implementation of the economic process of the enterprise. It manifests itself in the sphere of economic activity of the enterprise, is directly connected with the formation of its profit and is often characterized by possible economic consequences in the process of carrying out financial and economic activities.

There are two opposing views on the nature of risk.

First, risk is understood as a failure, the danger of material and financial losses that may occur as a result of the implementation of the chosen solution.

Secondly, the risk is identified with the predicted profit.

For the first time, the most common definition of risk was given by F. H. Knight: risk is a mode of action in a vague, uncertain environment [3].

As an economic category, it is an event that may or may not occur. In the event of such an event, three economic outcomes are possible:

- negative (lesion, damage, loss);
- null;
- positive (gain, profit, earnings).

In professional risk assessments, the risk usually combines the probability of an upcoming event with the impact it could have made, as well as the circumstances accompanying the onset of this event.

The main characteristics of risk include:

- economic nature;
- objectivity of manifestation;
- probability of occurrence;
- uncertainty of consequences;
- expected adverse effects;
- variability of the level;
- subjectivity of the assessment;
- availability of analysis;
- importance.

The common understanding of risk is captured by the so-called three-factor perspective, covering assets/values, threats, and vulnerabilities [0].

Different versions of these perspectives exist, including the following:

1. Risk =  $f$ (asset value, threat, vulnerability), where  $f$  denotes a function [0].
2. Risk = asset \* threat \* vulnerability [0].
3. Risk = threat \* (vulnerability and consequence) [0]
4. Risk = threat \* vulnerability \* consequence [0].

Of particular note is the theory of the Black Swans, authored by Nassim Nicholas Taleb [7], which appeared less than a decade ago. The metaphor and concept of the black swan has gained a lot of attention recently and is a hot topic in many forums that discuss safety and risk [8; 9]. In the scientific community it has also been a focus in the aftermath of Nassim Taleb's *The Black Swan*. Taleb refers to a black swan as an event with the following three attributes:

1. It is an outlier, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility.
2. It carries an extreme impact.
3. Despite its outlier status, human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable.

From the point of view of the author, practically all significant scientific discoveries, historical and political events, achievements of art and culture are the Black Swans. Examples of Black Swans are the development and implementation of the Internet, the First World War, the fall of the Soviet Union and the September 11 attack. Taleb also notes that humanity is unable to predict its future successfully, and the confidence in its knowledge is ahead of the knowledge itself and generates the phenomenon of "over-faith". This confirms the fact that no forecasting model has predicted the scope of the current economic crisis, and its consequences continue to puzzle scientific economists and business school teachers.

## CONCLUSION

Given the definitions of foreign and domestic scientists, the nature and characteristics of risk, as well as modern views, we propose the following definition of the category:

*Risk* – is the probability of occurrence of an unexpected adverse event in uncertainty conditions, which in retrospect has a rational explanation.

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