

Chapter 8

Risk and Uncertainty Factors in Managerial Economics

Saqib Muneer

 <https://orcid.org/0000-0003-4575-9566>

University of Ha'il, Saudi Arabia

ABSTRACT

The concept of risk in managerial economics encompasses various unexpected events such as natural disasters, risk, economic challenges, uncertainty or product failures that lead to undesirable outcomes. Risk arises from incomplete information about future events, which makes the results unpredictable. The inherent uncertainty of the future because of the unpredictable nature of the universe, further complicates the understanding and management of risk. Scientific uncertainty, defined as any deviation from complete determinism, illustrates the difficulty in clearly defining risk. Sometimes managerial economics explores risk through its two primary dimensions, highlighting its complexity and the challenges it presents to decision-makers.

INTRODUCTION

The probability and result of unreliable future events can be measured with the help of a Risk. Risk can be defined as undesirable consequences (Yoe, 2019). Fire, flood, virus, death, economic obstacle, or some types of danger, or unexpected results are not realized because of some unmatched product features with our expectations, your investment failed to achieve desirable beneficial outcomes, the disturbed ecosystem or any other failures are causes of Risk. Incomplete information about future events helps to create a chance for risk factors. The future is profoundly

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unexpected therefore we don't know about the results because the universe is characteristically inconstant. These all factors cause uncertainty in results. According to, scientific uncertainty and this phenomenon can be defined as "any departure from the unachievable ideal of complete determinism". The following explanation of risk suggests that risk can't be defined clearly. Basically, two dimensions of risk have been explained in different textbooks.

Some basic concepts of risk describe it as uncertainty. Some consequences, that is, harms, may be uncertain and the sequence of events that leads to them may, likewise, be uncertain. There can be uncertainty about their amount, occurrence, duration, and the like even when consequences and their contributing events are acknowledged. It's the researcher's duty to identify the major uncertainties that may cause expected risks and may help in calculations and management of managerial activities (Roger Strand, 2009). The risk of concerns can be estimated clearly with the help of this identification process. The risk of dam failure, the risk of bankruptcy, risk of acrylamide are common examples to understand risk practices. Significant confusion about the exact nature of a risk can be produced by this shorthand communication. Before they return to shorthand explanations of risks risk administrators, inspectors, and correspondents must identify the the risk of concerns clearly and recognizably with the process (Roger Strand, 2009). It is discussed that the valuation process can be divided into two parts because the valour is "unable to specify and price accurately all current and future influences on the value of the asset" (Adhair & Hutchison, 2005).

According to Kirzner (1982) "decision making would call purely for competent calculation" but on the other hand with the deficiency of uncertainty "decision making would no longer encountered as imaginative, creative determination". Before configuring a problem a manager must create the specific strategy predict desired outcomes assign probabilities to possible outcomes and choose an "ends-means framework" that describes what is relevant to him. Kirzner (1982) stated that "acting man must choose a framework that confirms what entrepreneurial gifts he can display because cannot be supposed to be sure of the framework relevant for calculative activity" 'The model of market uncertainty has not been directly recommended in the studies of fields of the consumer but Ram and Sheth (1989) have been presented some similar concepts to market uncertainty. They recognized that innovation can be restricted by risk barriers one of the resistance-inducing factors and they defined risk associated with the production stage (Ram & Sheth, 1989). Sheth

Arrow, (1971) described risk and uncertainty as most people list down all the possibilities and outcomes of a state of nature but they doubt what state is suitable for them and don't know about the results of their activities, and also difficult to respond effectively and efficiently to make obvious organizational changes (Tripsas & Gavetti, 2000). Companies are facing a turbulent, complex, and uncertain business

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