Comparing risk measures

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Abstract

In this paper we compare two sets of risk measures with respect to the criteria of first and second order stochastic dominance. We observe that overall risk measures do not preserve consistent preference ordering between assets under the first order stochastic dominance rule, while the downside risk measures, with the exception of Expected Shortfall (ES), do preserve a consistent preference ordering under first order stochastic dominance. Further, risk measures except ES preserve consistent preference ordering between assets under the second order stochastic dominance rule, although for some of the downside risk measures such preference ordering is only partial.

KEY WORDS: stochastic dominance, risk measures, preference ordering

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