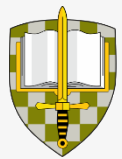




Selected economic and financial risks

Topic 1: Economic and financial risks and their types





The aim of the subject and topic

- **Course objective:** To acquaint students with the concept of risk and its application in the field of economic and financial decision-making.
- **Topic goal:** Clarify the concept of risk and its classification in the financial field. Focus on basic concepts related to financial planning.





Content

- Financial risk and its classification
- Risk classification
- Identification of risks and determination of their significance
- Factors influencing risk
- Other related terms
- Investors' attitudes to risk
- Basic concepts in the field of financial management
- Financial planning in the public sector
- Budget process





Financial risk

- **Risk** we perceive the danger that the actual results will differ from the results by us expected
- The risk and its assessment is also associated with a description of the investment, the profit of which is not known in advance with absolute certainty, but for which a certain set of possible results and their probabilities are known.





- Financial risks are risks associated with financial activities and are subject to risk management.





Classification risk

- The basic division of financial risks is into credit risk, operational risk, liquidity risk and market risk.





Identification of risks and determination of their significance

- It is used to calculate the risk **level probabilities**.
- Probability can be defined as the possibility of occurrence of a certain event, while its value is in the interval (0–1; 0–100 %)





- We distinguish two approaches to measuring the probability of risk:
 - Objective measurement of probability
 - Subjective measurement of probability





Factors influencing risk

- Uncertainty is due to the inability to reliably determine the future results of our decision, which are given by two basic types factors:
 - Internal factors
 - External factors





Other related concepts

- Portfolio
- Diversification
- Unsystematic risk
- Systematic risk





Attitudes of investors to risk

- From the point of view of financial management, three basic attitudes of investors towards risk:

a) risk averse investor – he doesn't like risk and tries to avoid it. It therefore behaves in the same way as a rational investor, and who, under otherwise the same conditions, prefers less risk to more.





(b) an investor prone to risk – favors investment projects that have a higher risk with the same expected returns.

c) investor neutral to risk – in essence, they ignore the existence of risk and choose to invest the portfolio only on the basis of their expected return.





Basic concepts in the field of finance management

Financing

- By financing we mean the acquisition of financial resources, or more generally capital in all its forms, and their use to procure the necessary goods, to cover expenses for the activities of the organization, etc.





Financial planning

- Financial the plan and reality of the values stated here are influenced by the way in which the principles of financial planning are observed: Systematicity; completeness; clarity, glide, flexibility, periodicity.





Financial planning in public sector

- The main processes of financial management of organizations in the public sector include:
 - budgeting;
 - realization of personal expenses;
 - financing;
 - bookkeeping;
 - financial control;
 - controlling.





Budget process

- Phase 1 - Preparation of the budgeting process
- Phase 2 - Implementation (creation) of the draft budget
- Phase 3 - Approval of the draft budget
- Phase 4 - Justification and approval of the proposal
- Phase 5 - Creation of documents
- Phase 6 - Breakdown of the approved budget
- Phase 7 - Budget implementation
- Phase 8 - Evaluation of the budget execution rate





Resources on the topic

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Tasks and questions on the topic:

- Questions on the topic:
 1. What is risk and what factors influence its existence?
 2. How can the significance of a risk be determined?
 3. How can the relationship between risk and uncertainty be described?
 4. What attitudes can an investor take to risk and how does risk affect investments?
 5. What are the main principles and principles of financial planning?
 6. What are the main financial management processes of public sector organizations?
 7. What is the stage of creating a public budget?





Thank you for your attention

