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Portfolio Risk Management Using the Lorenz Curve

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Abstract

This paper presents a methodology for using the Lorenz curve in financial economics. Many of the recent risk measures used in finance are associated with the Lorenz curve The Lorenz curve defines the concepts of second-degree stochastic dominance, Gini's mean difference, and Conditional Value-at-Risk. By using only asset returns to calculate the Lorenz curve the financial analyst can establish a set of efficient portfolios and derive the statistics necessary for carrying out a study of risk analysis.

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