The Economics of Enterprise Risk Management

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Abstract

Enterprise risk management (ERM) models have grown in number and sophistication over the past few decades. However, few ERM models use tenets from economics to provide practical guidance that can help firms avoid "black swans" and other risky events.

Within this paper, we take an applied approach to examine the economics of ERM. We provide readers with a series of economically based warning signs that might signify significant changes in asset prices. These warning signs are based on the economic concepts of elasticity of demand, elasticity of supply and herd behavior. Our recommendations provide practical guidance to directors, executives and practitioners regarding ways in which they can mitigate risks in today's volatile environment.