

Study Questions: Chavez-Demoulin “Extreme Value Theory Can Save Your Neck”

1. Does extreme value theory utilize the normal distribution? Explain.
2. What is the basic change from classical statistics to extreme value theory?
3. What are some statistical distributions favored by extreme value theory (EVT)?
4. In terms of statistics, how does VaR operate?
5. Black-Scholes assumes that volatility is constant. Against this background, what does this quotation mean? “The statement that volatility is constant is compromised. Constant? It most likely follows the state of heart of the traders.”