

Study Questions: Leippold—Don't Rely on VaR

1. What is a correct definition of VaR in terms of maximum loss?
2. Consider the 5% worst outcomes for a bank. What is the VaR measure?
3. What is Leippold's point with respect to Figure 1?
4. What is subadditivity and how does it relate to portfolio management?
5. Leippold states: "When calculating the total VaR of, for example, a credit department by aggregating the VaRs of the different units, it may turn out that the aggregate risk in terms of VaR exceeds the total exposure of the business unit."
6. Why are financial markets more like poker than roulette, and what does Leippold infer from this observation?