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Comparative Analyses of Expected Shortfall and Value-at-Risk (2): Expected Utility Maximization and Tail Risk

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Abstract

We compare expected shortfall and value-at-risk (VaR) in terms of consistency with expected utility maximization and elimination of tail risk. We use the concept of stochastic dominance in studying these two aspects of risk measures. We conclude that expected shortfall is more applicable than VaR in those two aspects. Expected shortfall is consistent with expected utility maximization and is free of tail risk, under more lenient conditions than VaR.

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