DOWNLOAD PDF SYSTEMATIC AND UNSYSTEMATIC RISK IN FINANCIAL MANAGEMENT

Chapter 1 : Systematic Vs Unsystematic Risks | racedaydvl.com

Unsystematic risk, also known as "specific risk," "diversifiable risk" or "residual risk," is the type of uncertainty that comes with the company or industry you invest in. Unsystematic risk can.

Another method of calculating beta is to regress the returns of the security or portfolio on the returns on the market portfolio. More commonly, the returns on the security in excess of the risk-free rate are regressed against the market returns in excess of the risk-free rate. The slope of the resulting regression line is the beta. Regardless of which method is used, there is an issue inherent in these calculations because historical data is being used, and the past is not a good predictor of the future. For one thing, the composition of the firm may have changed. The beta of a portfolio of securities can be easily calculated as a weighted average of the betas of the individual securities in the portfolio. Thus, if a stock has a beta of 1. A beta of zero indicates a security that does not move with the market. Its covariance with the market portfolio is zero, and it is risk-free. Treasury bills, for example, would have a beta of zero. A negative beta is indicative of a security for which the returns move opposite the market. Its returns have a negative covariance with the market portfolio. Adding stocks with negative betas to a portfolio serves to decrease the risk of the portfolio. The betas of most securities fall between 0. Betas are not stable over time, however, particularly for individual securities. The beta of a portfolio of securities tends to be more stable since a downward movement in the beta of one of the securities in the portfolio may be offset by an upward movement in the beta of another of the securities in the portfolio. Because unsystematic, or company-specific, risk can be diversified away, researchers have concluded that the only risk investors are rewarded for taking is systematic risk. In other words, the expected return on a security or portfolio of securities is based on its level of systematic risk, i. A very risk-averse investor might decide to invest his investment monies in Treasury securities and low beta stocks. An average risk investor would target an investment portfolio that has a beta of 1. A risk-lover would choose high beta stocks for his portfolio, taking on a lot more risk to earn a return significantly higher than what the market is expected to return.

Chapter 2 : Difference between Systematic and Unsystematic Risk - ORDNUR TEXTILE AND FINANCE

Systematic risk is uncontrollable whereas the unsystematic risk is controllable. Systematic risk arises due to macroeconomic factors. On the other hand, the unsystematic risk arises due to the micro-economic factors. Systematic risk affects a large number of securities in the market.

I believe the ultimate risk is permanently losing your capital. In order to avoid the ultimate risk you need an investment risk management plan. Part of this plan is to understand systematic and unsystematic risk and the most effective approaches to mitigating these risks. Systematic and Unsystematic Risk Systematic Risk Systematic risk is risk associated with market returns. This is risk that can be attributed to broad factors. It is risk to your investment portfolio that cannot be attributed to the specific risk of individual investments. Sources of systematic risk could be macroeconomic factors such as inflation, changes in interest rates, fluctuations in currencies, recessions, wars, etc. Macro factors which influence the direction and volatility of the entire market would be systematic risk. An individual company cannot control systematic risk. Systematic risk can be partially mitigated by asset allocation. Owning different asset classes with low correlation can smooth portfolio volatility because asset classes react differently to macroeconomic factors. To further reduce risk, asset allocation investment decisions should be based on valuation. I want to adjust my asset allocation target according to valuations. I want to overweight those asset classes that are bargains and own less or avoid investments which are overpriced. When mitigating systematic risk within a diversified portfolio, cash may be the most important and under appreciated asset category. Unsystematic Risk Unsystematic risk is company specific or industry specific risk. This is risk attributable or specific to the individual investment or small group of investments. It is uncorrelated with stock market returns. Other names used to describe unsystematic risk are specific risk, diversifiable risk, idiosyncratic risk, and residual risk. Examples of risk that might be specific to individual companies or industries are business risk, financing risk, credit risk, product risk, legal risk, liquidity risk, political risk, operational risk, etc. Unsystematic risks are considered governable by the company or industry. Proper diversification can nearly eliminate unsystematic risk. If an investor owns just one stock or bond and something negative happens to that company the investor suffers great harm. But if an investor owns a diversified portfolio of 20, 30, or 40 individual investments, the damage done to the portfolio is minimized. The important concept of unsystematic risk is that it is not correlated to market risk and can be nearly eliminated by diversification. Probability and Expected Value The expected value or return of a portfolio is the sum of all the possible returns multiplied by the probability of each possible return. One form of risk is the amount of deviation and the probability of that deviation from the expected return. Portfolio risk is reduced by mitigating systematic risk with asset allocation, and unsystematic risk with diversification. This is called portfolio optimization. In other words, a manager is willing to accept a given amount of risk. Now the the manager can add more aggressive investments to the portfolio and still maintain the given amount of risk he is willing to accept. Conclusion Systematic and unsystematic risks can be partially mitigated with risk management solutions such as asset allocation, diversification, and valuation timing.

Chapter 3 : What is Unsystematic Risk? - Definition | Meaning | Example

Systematic Risk and Unsystematic Risk Differences. Let us understand the differences between Systematic Risk vs Unsystematic Risk in detail: Systematic risk is the probability of a loss associated with the entire market or the segment whereas Unsystematic risk is associated with a specific industry, segment or security.

Check new design of our homepage! What are the causal factors that lead to these types of risks and how can they be effectively dealt with? Read to find all the answers. WealthHow Staff Last Updated: Jun 3, Risk comes from not knowing what you are doing. In common economics parlance, risk is anything that is going to hamper the expected return on an investment. To effectively neutralize it, one needs to first understand its true nature. Two of its broadly classified types are systematic and unsystematic risk. Just like a medical diagnostician labels every kind of ailment and defines its symptoms, causes, and treatment measures, an individual acting as his own investment manager, must first comprehend and analyze the factors by which, systemic and unsystematic risk arises. This thorough study will enable you to build effective hedging strategies that can negotiate the uncertainty and risk associated with investments. It is the risk that plagues the entire market and is therefore, also termed as market risk, volatility, aggregate risk, or undiversifiable risk in some cases. It arises due to the inherent dynamic nature of an economy, broader market outcomes, inflation, and all types of unavoidable global and local macroscopic factors. A lower beta indicates lesser volatility; however, a higher value indicates an investment that is highly vulnerable to macroscopic systematic risk that plagues the market. The only way to negotiate this risk type is to not invest in securities with high beta values and go for zero-beta options like treasury bonds. But then you have to be satisfied with low returns. Ergo, it is something that you cannot completely eliminate, but have to learn to live and trade with. Lastly, this type of risk should not be confused with systemic risk, which is associated with the complete annihilation of a financial market, due to cascading effects triggered by major fault lines. The Manageable Variety Unsystematic risk is connected with specific sectors and arises due to problems that are endemic to a particular company or sector that you are invested in. Some examples are labor strikes, drop in sales of a company, product recalls, managerial change, drastically-affecting regulatory change, sudden rise of competitors, or any other problem which arises due to human level error in judgment at the managerial level, which affects your investment in any security. This kind may be limited to a specific business or a sector and can therefore be actually neutralized through wide diversification. For example, if the risk is associated with a particular sector, you could distribute your investments over multiple sectors to downplay its impact. Hence, this type is also known as diversifiable or specific risk, which can be certainly avoided. Difference Between Systematic Risk and Unsystematic Risk Systematic risk affects the entire market as a whole, while the unsystematic variety may affect a certain company or sector. Unsystematic risk can be eliminated or reduced through diversification of the portfolio over a wide range of sectors or security types. One can diversify an investment portfolio to eliminate the endemic risk that plagues a certain sector. However, systematic risk cannot be eliminated as its effects sweep the entire economy, as well as the market. To really anticipate it, one needs to study the dynamics of an economy and the effects of policy decisions quite deeply. While this may not help you entirely eliminate it, it may help you brace for it. One can keep unsystematic risk to a minimum with thorough stock research and spreading out of investments over diverse sectors, but its unsystematic counterpart, simply cannot be eliminated entirely. It cannot be taken out of the equation entirely and therefore, it should never be ignored. Make your investments smartly, by taking both these risks into consideration. Only invest what you can afford to lose in the markets. Let your decisions be based on thorough research of the fundamentals, instead of wild speculation.

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Chapter 4 : Systematic Risk vs. Unsystematic Risk â€“ beatingtheindex

While unsystematic risk is divided into categories namely business risk and financial risk. Systematic risk + Unsystematic risk = Total risk After understanding the system of systematic and unsystematic risk, let's look at the examples for both to get a clearer view.

Systematic risk is the fluctuations in the returns on securities that occur due to macroeconomic factors. These factors could be the political, social or economic factors that affect the business. Systematic risk is further divided into three categories: Interest Risk Market Risk Definition Of Unsystematic Risk The fluctuations in returns of a company arising due to micro-economic factors are termed as unsystematic risks. These risk factors exist within the company and can be avoided if necessary action is taken. The risk factors can include the production of undesirable products, labor strikes, etc. Unsystematic risks are further divided into two categories: Key Differences Between Systematic and Unsystematic Risk The basic differences between systematic and unsystematic risk are explained in the following points: Meaning Systematic risk refers to the probability of loss linked with the whole market segment such as changes in government policy for the specific industry. While risks associated with particular industry is referred to as unsystematic risks like labor strike. Nature Systematic risk occurs due to uncontrollable factors such as natural calamities. As opposed to the unsystematic risk which is due to controllable factors such as the production of undesirable products. Factors Systematic risk occurs due to macroeconomic factors such as social, economic and political factors. Affects Systematic risk distresses a large number of organizations in the market or an entire industry sector. Whereas, unsystematic risk distresses a particular company. Protection Systematic risk can be eradicated through several ways like asset allocation or hedging. Categories Systematic risk is divided into three categories namely, interest risk, market risk and purchasing power risk. People who had invested in all kinds of securities saw the values of their investments fall due to the market-wide economic event. The great recession affected various securities in diverse ways. Thus, investors who held stocks were affected in adverse ways as compared to those with wider asset allocations. For that, production lines are altered and capital is dedicated toward smaller devices. However, the company realizes in the next year that consumers are more inclined towards bigger phones and watches. Thus, the inventory and machinery obtained by the company later sells at a major loss or remains unsold. This will in turn harm the stock prices of the company. Thus, all the other firms in the technology sector might perform well while this company will backtrack due to poor entrepreneurial foresight. Conclusion In financial management , the avoidance of both, systematic and unsystematic risk can prove to be difficult. External factors are involved in causing systematic risk, these factors are unavoidable as well as uncontrollable. Moreover, they affect the entire market but can be partially constrained through asset allocation and hedging. Unsystematic risk is caused by internal factors and can be controlled and avoided, up to a great extent by means of portfolio diversification.

Chapter 5 : Systematic Risk Definition & Example | InvestingAnswers

Systematic and unsystematic risks can be partially mitigated with risk management solutions such as asset allocation, diversification, and valuation timing. Used properly, a manager can increase portfolio returns and/or reduce risk to optimize an investment portfolio.

Finance Difference between Systematic and Unsystematic Risk As an investor, you must know the difference between systematic and unsystematic risk because it will help you to take an effective investment decision. If you observer the investment decision of an investor, you can see that their investment decision is highly influenced by their risk-taking behavior. Although future is uncertain, people always try to assume how much risk may arise in future if an investment is made. A risk is the portion of uncertainty which we can measure. In a broader sense risk can be categorized into two types; one is a systematic risk which is a non-diversifiable risk and other is an unsystematic risk or non-systematic risk or diversifiable risk. Let have a detail discussion of systematic risk and unsystematic risk with examples: Systematic Risk The percent of risk which we cannot minimize or reduce through diversification is considered as a systematic risk. This means that this type of risk is impossible to eliminate by an individual. From my point of view, the systematic risk arises from the macroeconomic factors inflation, unemployment rate, oil price etc. Only through the proper economic planning of government can reduce this types of risk. One important thing you need to know that although implementation of effective economic policies by the government would reduce this type of risk it needs time to be visible in the market. Beta is the measure of systematic risk and market beta is always one. The reason behind market beta is to be 1 is that we cannot minimize or eliminate systematic risk by our own. Beta can be calculated by dividing the covariance between individual securities and market to the variance of the market. Suppose market interest rate is increased, in this case, if we want to borrow money from the market we have to pay more interest than previous because the cost of funds increased. Individually we cannot change the market interest rate so this works as a systematic risk. Increase in the inflation rate, this means the buying power of money is decreased. For this reason, we can buy less resource than previous. So increase in inflation works as a systematic risk which existed in the market. The only monetary policy of government can influence the inflation rate. If there is an increase in unemployment rate then people will have less money to purchase goods and services. And this will create a negative impact on the business which is beyond the control of individuals. Unsystematic Risk Unsystematic risk is also known as diversifiable risk or nonsystematic risk. This type of risk arises from the micro-economic factors which directly or indirectly related with business and through carefully managed you can eliminate this unsystematic risk. A popular portfolio management concept is diversification, through investing in negatively correlated investment alternatives. That is investing in different companies from different industries which do not have any direct link between them. The better you manage your portfolio the lower will be your systematic risk. As unsystematic risk is not directly related with the economic system, we can manage it in a better way through taking effective decision individually and maximize our return on investment. Examples of Unsystematic Risk Individual industry or company related any kinds of risk is considered as unsystematic risk for the company. Examples of unsystematic risk can be: Increased labor turnover rate due to dispute of payment related issues among employer and employee. Increase in research and development cost of the company. Increase in operational expenses. If it is possible then the total risk of the investment will be reduced. Here is the list of difference between systematic and unsystematic risk: Systematic Risk Unsystematic Risk Systematic risk arises on account of the economy with uncertainties and the tendency of individual securities to move together with the change in the market. Unsystematic risk is that part of risk which arises from the uncertainties and which are unique to individual securities and can be diversifiable. Directly related to the economic system of a country. Directly not related to the economic system, rather it is more about business or company related. Unsystematic risk is known as diversifiable risk, not a systematic risk. We cannot reduce this type of risk individually This type of risk can be reduced Negatively correlated investment cannot eliminate the risk. It is possible to eliminate the risk by forming a portfolio of negatively correlated investment. Beta is a measure of systematic risk. Unsystematic risk is the function of may macroeconomic factors related to business. Basically, investors not try to work with systematic risk. Investors always try to reduce this type of risk through better managing their investment. Change in market interest rate Increase in inflation.

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Chapter 6 : Difference Between Systematic and Unsystematic Risk (with Comparison Chart) - Key Differen

Purchasing Power Risk - It refers to the risk of reduction in purchasing power of expected returns due to high rate of inflation. Unsystematic Risk. It refers to risk caused by the factors internal to a business and unlike systematic risk it is specific to a business and hence can be controlled by the business.

Large number of securities in the market. Interest risk, market risk and purchasing power risk. Such fluctuations are related to the changes in the return of the entire market. The risk may result in the fall of the value of investments over a period. It is divided into three categories, that are explained as under: Risk caused by the fluctuation in the rate or interest from time to time and affects interest-bearing securities like bonds and debentures. Alternatively known as purchasing power risk as it adversely affects the purchasing power of an individual. The risk influences the prices of a share, i. The factors that cause such risk relates to a particular security of a company or industry so influences a particular organization only. The risk can be avoided by the organization if necessary actions are taken in this regard. It has been divided into two category business risk and financial risk, explained as under: Risk inherent to the securities, is the company may or may not perform well. The risk when a company performs below average is known as a business risk. There are some factors that cause business risks like changes in government policies, the rise in competition, change in consumer taste and preferences, development of substitute products, technological changes, etc. Alternatively known as leveraged risk. When there is a change in the capital structure of the company, it amounts to a financial risk. The debt â€” equity ratio is the expression of such risk. Key Differences Between Systematic and Unsystematic Risk The basic differences between systematic and unsystematic risk is provided in the following points: Systematic risk means the possibility of loss associated with the whole market or market segment. Systematic risk is uncontrollable whereas the unsystematic risk is controllable. Systematic risk arises due to macroeconomic factors. Systematic risk affects a large number of securities in the market. Conversely, unsystematic risk affects securities of a particular company. Systematic risk is divided into three categories, i. Conclusion The circumvention of systematic and unsystematic risk is also a big task. As external forces are involved in causing systematic risk, so these are unavoidable as well as uncontrollable. Moreover, it affects the entire market, but can be reduced through hedging and asset allocation. Since unsystematic risk is caused by internal factors so that it can be easily controlled and avoided, up to a great extent through portfolio diversification.

Chapter 7 : Systematic Risk vs Unsystematic Risk | Top 7 Differences (Infographics)

In financial markets, risk is an important concept to understand. If you hope to make money, you must risk money. In this lesson, we'll learn the difference between systematic and unsystematic.

It is also called market risk and undiversifiable risk. It is measured by the beta coefficient. Based on the capital asset pricing model, it is the only risk which ought to be compensated by higher return. An equity investment is considered risky when its return varies. There are two main sources of such variation: Systematic Risk vs Unsystematic Risk The risk that arises from unique factors is called unique risk or unsystematic risk. Unique risk can be diversified by holding a well-balanced portfolio. In a portfolio context, positive variations in some assets that arise from investment-specific factors balances out negative variations in other assets from unique factors. Hence, unique risk is also called diversifiable risk because it can be eliminated by diversification. The risk arising from the broad economy-wise factors is called systematic risk. Further, because it affects almost all assets in the market, some more and some less, it is also called market risk. The relationship between different components of investment risk can be expressed as follows: Examples Following are a few events that are source of systematic risk: Any major central bank action: Bankruptcy of any institution critical to smooth functioning of financial market and economy. Wars, earth quakes, tsunamis, etc. Major fiscal policy changes such as new tax legislation, reduction or increase in tax rates and incidence. Major trade war or currency war. Inflation or hyperinflation Measurement of systematic risk Beta coefficient is a measure of systematic risk. A higher beta coefficient means higher systematic risk and vice versa. A beta coefficient of 1 means that the investment has systematic risk equal to the average systemic risk of the whole market. Systemic risk of a portfolio is estimated as the weighted average of the beta coefficients of individual investments. The capital asset pricing model estimates required return on an equity investment with reference to its inherent systematic risk. The higher the beta value, the higher will be the required return and vice versa as evident from the formula below: The risk that is compensated through increased return is called priced risk. Unsystematic risk is not price in CAPM because it can be fully diversified. It has lower systematic risk than an all-equity portfolio or all-bond portfolio. This is because certain systematic risk factors affect different assets classes differently. For example, a slowdown in the equity market may trigger positive return for gold. In such situation, a well-rounded portfolio which consists of different investment classes has lower overall systematic risk exposure. Another approach is to use hedging strategies to reduce and eliminate systematic risk. For example, a hedge fund with investments in equity investments may short sell the broad market index. The negative position in the broad market index may cancel out the systematic risk that results from positive position in individual equity investments.

Chapter 8 : Systematic and Unsystematic Risks | Fundamentals of Accounting

Systematic risk. Unsystematic risk. The meaning of systematic and unsystematic risk in finance: Systematic risk is uncontrollable by an organization and macro in nature. Unsystematic risk is controllable by an organization and micro in nature. A. Systematic Risk. Systematic risk is due to the influence of external factors on an organization.

Unsystematic risk can be reduced through diversification. For example, news that is specific to a small number of stocks, such as a sudden strike by the employees of a company you have shares in, is considered to be unsystematic risk. Systematic risk, also known as "market risk" or "un-diversifiable risk", is the uncertainty inherent to the entire market or entire market segment. Volatility is a measure of risk because it refers to the behavior, or "temperament," of your investment rather than the reason for this behavior. Because market movement is the reason why people can make money from stocks, volatility is essential for returns, and the more unstable the investment the more chance there is that it will experience a dramatic change in either direction. Interest rates , recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification. Systematic risk can be mitigated only by being hedged. Systematic risk underlies all other investment risks. If there is inflation, you can invest in securities in inflation-resistant economic sectors. If interest rates are high, you can sell your utility stocks and move into newly issued bonds. However, if the entire economy underperforms, then the best you can do is attempt to find investments that will weather the storm better than the broader market. Popular examples are defensive industry stocks, for example, or bearish options strategies. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model CAPM , as we described in the previous section. A beta of less than 1 means that the security will be less volatile than the market. Many utility stocks have a beta of less than 1. Conversely, most high-tech Nasdaq -based stocks have a beta greater than 1, offering the possibility of a higher rate of return, but also posing more risk. Beta helps us to understand the concepts of passive and active risk. The returns are cash-adjusted, so the point at which the x and y axes intersect is the cash-equivalent return. Drawing a line of best fit through the data points allows us to quantify the passive, or beta, risk and the active risk, which we refer to as alpha. The gradient of the line is its beta. For example, a gradient of 1. A manager employing a passive management strategy can attempt to increase the portfolio return by taking on more market risk i. Essentially, beta expresses the fundamental tradeoff between minimizing risk and maximizing return. Say a company has a beta of 2. This means it is two times as volatile as the overall market. If a stock had a beta of 0. For further reading, see Beta: If an investor expects the market to be bearish in the near future, the funds that have betas less than 1 are a good choice because they would be expected to decline less in value than the index. For example, if a fund had a beta of 0. Here is a basic guide to various betas: Negative beta - A beta less than 0 - which would indicate an inverse relation to the market - is possible but highly unlikely. Beta of 0 - Basically, cash has a beta of 0. In other words, regardless of which way the market moves, the value of cash remains unchanged given no inflation. Beta between 0 and 1 - Companies with volatilities lower than the market have a beta of less than 1 but more than 0. Many utilities fall in this range. Beta of 1 - A beta of 1 represents the volatility of the given index used to represent the overall market against which other stocks and their betas are measured. If a stock has a beta of 1, it will move the same amount and direction as the index. Beta greater than 1 - This denotes a volatility that is greater than the broad-based index. Many technology companies on the Nasdaq have a beta higher than 1. Beta greater than - This is impossible as it essentially denotes a volatility that is times greater than the market. If a stock had a beta of , it would be expected to go to 0 on any decline in the stock market. If you ever see a beta of over on a research site, it is usually either the result of a statistical error or a sign that the given stock has experienced large swings due to low liquidity , such as an over-the-counter stock. For the most part, stocks of well-known companies rarely have a beta higher than 4. Many people are not and therefore opt for investments with low volatility. Other people are willing to take on additional risk because with it comes the possibility of increased reward. It is very important that investors not only have a good understanding of their risk tolerance , but also know which investments match their risk preferences. By using beta to measure volatility, you can better choose those securities that meet your criteria for risk. Investors who are very risk-averse should put their money into investments with low betas such as utility stocks and Treasury bills. Those investors who are willing to take on more risk may want to invest in stocks with higher betas. Many brokerage firms calculate the betas of securities they trade, and then publish their calculations in a beta book. These books offer estimates of the beta for almost any publicly-traded company. However, there are other resources. One of the better-known websites as of that publishes beta is Yahoo! The beta calculated on Yahoo! A beta of "0. Past beta figures or historical volatility do not necessarily predict future beta or future volatility. One study by Gene Fama and Ken French called "The Cross-Section of Expected Stock Returns" published in in the Journal of Finance on the reliability of past beta concluded that for individual stocks past beta is not a good predictor of future beta. An interesting finding in this study is that betas seem to revert back to the mean. This means that higher betas tend to fall back toward 1 and lower betas tend to rise toward 1. The second caveat for using beta is that it is a measure of systematic risk , which is the risk that the market as a whole faces. The market index to which a stock is being compared is affected by market-wide risks. So, since it is found by comparing the volatility of a stock to the index, beta only takes into account the effects of market-wide risks on the stock. The other risks companies face are firm-specific risks, which are not grasped fully in the beta measure. So, while beta will give investors a good idea about how changes in the market affect the stock, it does not look at all the risks faced by the company alone. When the market moved up, IBM red line tended to move up more see the Oct. It helps measure volatility, but it is not the whole story. Analysts, brokers and planners have used beta for decades to help them determine the risk level of an investment, and you should be aware of this risk measure in your investment decision-making.

Chapter 9 : What is Systematic Risk? - Definition from Divestopedia

Unsystematic risk is due to the influence of internal factors prevailing within an organization. Such factors are normally controllable from an organization's point of view. It is a micro in nature as it affects only a particular organization.

The meaning of different types of market risk is as follows: Absolute risk is without any content. Relative risk is the assessment or evaluation of risk at different levels of business functions. Directional risks are those risks where the loss arises from an exposure to the particular assets of a market. Non-Directional risk arises where the method of trading is not consistently followed by the trader. Volatility risk is of a change in the price of securities as a result of changes in the volatility of a risk-factor. Purchasing power or inflationary risk Purchasing power risk is also known as inflation risk. It is so, since it emanates originates from the fact that it affects a purchasing power adversely. It is not desirable to invest in securities during an inflationary period. The types of power or inflationary risk are depicted and listed below. Demand inflation risk and Cost inflation risk. The meaning of demand and cost inflation risk is as follows: Demand inflation risk arises due to increase in price, which result from an excess of demand over supply. It occurs when supply fails to cope with the demand and hence cannot expand anymore. In other words, demand inflation occurs when production factors are under maximum utilization. Cost inflation risk arises due to sustained increase in the prices of goods and services. It is actually caused by higher production cost. A high cost of production inflates the final price of finished goods consumed by people. Unsystematic Risk Unsystematic risk is due to the influence of internal factors prevailing within an organization. It is a micro in nature as it affects only a particular organization. It can be planned, so that necessary actions can be taken by the organization to mitigate reduce the effect of the risk. The types of unsystematic risk are depicted and listed below. Business or liquidity risk, Financial or credit risk and Operational risk. Business or liquidity risk Business risk is also known as liquidity risk. It is so, since it emanates originates from the sale and purchase of securities affected by business cycles, technological changes, etc. The types of business or liquidity risk are depicted and listed below. Asset liquidity risk and Funding liquidity risk. The meaning of asset and funding liquidity risk is as follows: Asset liquidity risk is due to losses arising from an inability to sell or pledge assets at, or near, their carrying value when needed. Funding liquidity risk exists for not having an access to the sufficient-funds to make a payment on time. Financial or credit risk Financial risk is also known as credit risk. It arises due to change in the capital structure of the organization. The capital structure mainly comprises of three ways by which funds are sourced for the projects. These are as follows: The types of financial or credit risk are depicted and listed below.