**EFFECTIVE FINANCIAL MANAGEMENT**

**Learning Outcome 3: ACTIVITY 2**

**The normal distribution and risk**

The normal distribution has been widely adopted in financial management. Its mathematical properties as a probability theory provide a basis with which to quantify risk in many different contexts. When the number of random variables is sufficiently large, they will be 'normally distributed' around the mean average or 'central limit'

#### Individually, and then in pairs

Identify a business with which you are familiar. This could be a multinational company from which you have purchased goods/services, a business that owns your favourite brand or the business for which you work (or wish to work in the future).

Ideally this should be the business you chose in LO1, LO2 and in LO3 Activity 1 to re-visit throughout your classroom activities.

From your research:

1. Identify a key investment decision that has been taken by your chosen business.
2. Identify examples of the circumstances in which the normal distribution might not be a reliable technique with which to measure risk.
3. Consider a decision taken by your chosen business. Consider if the normal distribution would have been an appropriate tool with which to measure the risks in this decision. Explain your reasoning.
4. Prepare a short presentation on your findings.