

Sir Norman Angell

Risk, Uncertainty and Profit

New Edition

SERIES IN ECONOMICS

About the author

Frank H. Knight (1885-1972) was a Professor of economics at the University of Chicago for most of his professional life. Considered one of the founding fathers of the intellectual current known as the “Chicago School”, Frank Knight had an enormous influence on economic theory and methodology and as a consequence also on the professional reach of modern economists. Knight was an editor of the pre-eminent *Journal of Political Economy* for over two decades, winner of half a dozen scholarly awards and honorary degrees.

Summary

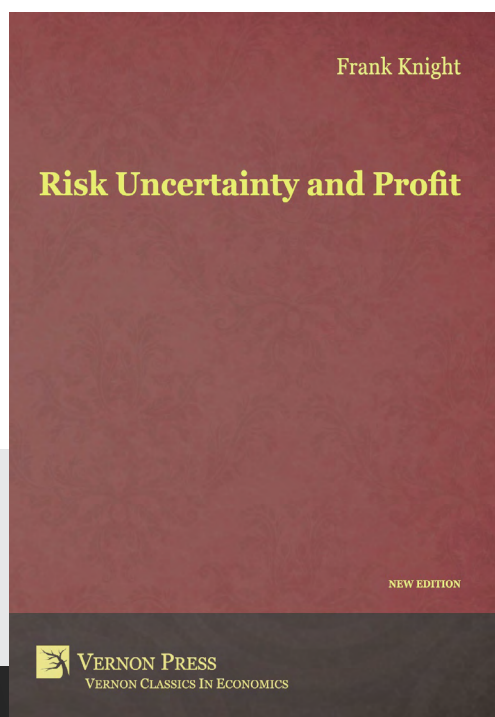
In *Risk, Uncertainty and Profit*, Frank Knight explored the riddle of profitability in a competitive market: profit should not be possible under competitive conditions, as the entry of new entrepreneurs would drive prices down and nullify margins, however evidence abounds of competitive yet profitable markets.

To explain this seeming paradox, Knight uncovers the distinction between calculable risk and essentially unknowable uncertainty.

Knight argued that risk stems from repeated events, which therefore allow probabilities to be calculated and factored into decisions, as for instance insurers do. Uncertainty however, stems from events that are unpredictable and as such cannot be prepared against.

According to Knight, it is the interplay between risk and uncertainty on the one hand and competition between incumbent and new entrepreneurs that accounts for the enormous variation in profitability across firms and, for the same firms, over time. His insights on the sources of profit have been instrumental in shaping modern economic theory and to the development of a useful understanding of probability.

This New Edition has been typeset with modern techniques and contains a newly compiled Index of important topics. It has been painstakingly proofread to ensure that it is free from errors and that the content is faithful to the original.



July 2013 | Hardback 236x160mm | 330 Pages | ISBN: 978-1-62273-004-9
Also in Paperback (\$50/€47/£40) | ISBN: 978-1-62273-170-1

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