VaR

- VAR in finance means two things, variance and "value at risk" but when the A isn't capitalized, it means value at risk
- Invented after stock market crash of 1987
- Value at risk is usually quoted in units of $ for a given probability and time horizon
- 1% one-year VaR of $10 million means 1% chance that a portfolio will lose $10 million in a year

Stress Tests

- Originally, term referred to a medical procedure to test for cardiovascular fitness
- OFHEO started testing firms' ability to withstand economic crisis before the 2008 crisis, failed.
- Dodd Frank Act 2010 requires the Federal Reserve to do annual stress tests for nonbank financial institutions it supervises for at least three different economic scenarios
- European Banking Authority, created 2011
- UK, China, etc.
- Critics of stress tests such as Anat Admati find them inadequate.