

## FINANCIAL RISKS IN THE ECONOMY

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Today, there is no unambiguous explanation of the nature of the risk. This is explained, in particular, by the multifacetedness of this term, its almost complete denial by our economic legislation in real economic practice and management activities. In addition, risk is a complex phenomenon with many overlapping and sometimes conflicting real foundations.

Analyzing the many definitions of risk allows us to identify key issues that are specific to risky situations, such as:

- the nature of randomness (presence of uncertainty) of the event, which determines which of the possible outcomes will be used in practice;
- availability of alternative solutions;
- the probability of results and the expected results are known or can be determined;
- possibility of damages;
- possibility of additional profit.

In our opinion, we focus on the following definition of risk, which more fully reflects the concept of "risk": risk is an activity related to the elimination of uncertainty in inevitable choice situations, in the process of achieving the expected

result, failures and deviations from the goal it will be possible to estimate the probability quantitatively and qualitatively.

It should be noted that the difference between risk and uncertainty depends on the method of providing information and is determined by the presence (in the case of risk) or absence (in the case of uncertainty) of probabilistic descriptions of uncontrollable variables. In the mentioned sense, these terms are used in the mathematical theory of operations research, in which the issues of decision-making at risk and, accordingly, under conditions of uncertainty, are highlighted. If it is possible to qualitatively and quantitatively determine the degree of probability of this or that option, then this is exactly the risky situation.

Thus, a risk situation (risky situation) is a type of uncertainty in which the probability of occurrence of events exists and can be determined, that is, in this case, joint activities with production partners, countermeasures of competitors or enemies, there will be an objective opportunity to assess the probability of events arising as a result of the influence of the natural environment on the economic development, the introduction of scientific achievements to the national economy, and others.

There are three main perspectives in the literature that recognize the subjective, objective or subjective-objective nature of risk. In our opinion, the most correct approach is subjective-objective, because the main argument for its justification is that the activity itself has subjective and objective aspects, since the person, group, team, etc. are involved in subjective relations in the process of activity. is the recognition of reality.

In the 20s of the last century, F.Knight was one of the first to put forward the idea that "income is always associated with uncertainty". In particular, he defines risk as follows: "The category of risk and uncertainty plays a major role in economic relations. Uncertainty, which is an integral part of economic activity, underlies all complex and important economic phenomena. The essence of uncertainty is manifested in risk".

P.Samuelson noted the following: "Uncertainty arises as a result of contradictions, that is, what people expect, what is happening, and the result of this is manifested in profit or loss".

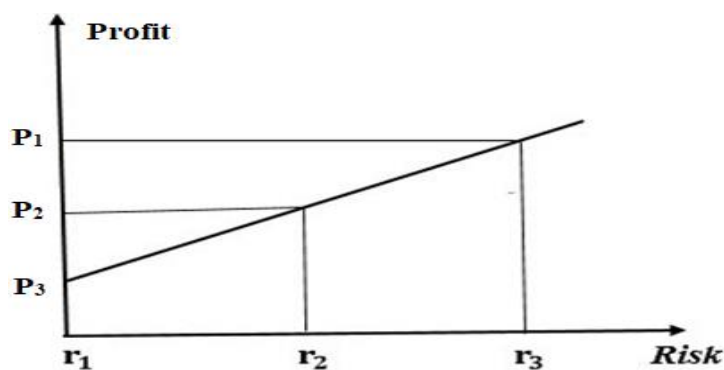
Due to the fact that risk reflects a special activity in conditions of uncertainty and in a situation of forced (necessary) choice, it also represents an objective and subjective dialectical unity.

Consequently, risk is always associated with choosing certain alternatives and estimating the probability of their results - that's when its subjective aspect is revealed. At the same time, the magnitude of the risk is not only subjective, but also objective, because it is considered a qualitative and quantitative expression of real uncertainty.

An entrepreneur shows his willingness to take risks in the face of uncertainty, because along with the risk of loss, there is also the possibility of additional income. However, it is clear that the entrepreneur is not guaranteed to make a profit, he may receive a profit or suffer a loss as a reward for his time, effort and skills.

It should be noted that the entrepreneur has the right to partially transfer the risk to other subjects of the economy, but he cannot completely avoid it. It is very aptly said that a person who does not take risks cannot win. In other words, in order to obtain economic benefits, an entrepreneur must consciously make risky decisions.

We can confidently say that uncertainty and risk play a very important role in entrepreneurial activity, because it consists of the contradiction between planned and actual results, that is, it is a source of entrepreneurial activity development.



**Figure 1. Connection of benefit to risk**

Figure 1 shows the dependence of profit on risk. You can choose a solution with less risk ( $r_1 = 0$ ), but the profit ( $P_2$ ) will be less, and at the highest risk ( $r_3$ ) the profit will have a maximum value equal to  $P_3$ .

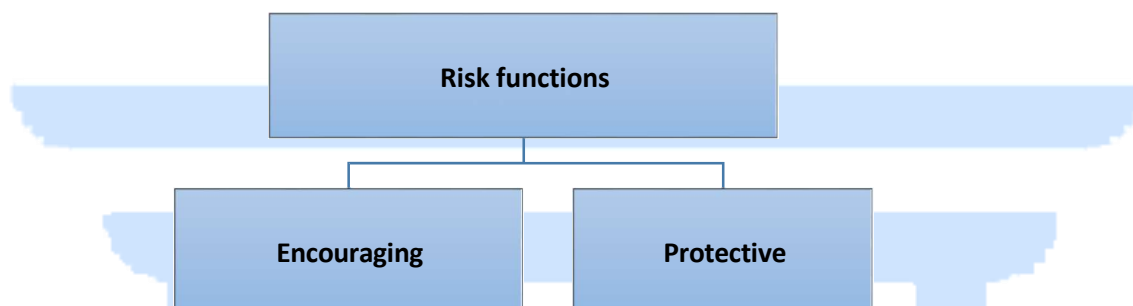
In market relations, the economic behavior of the entrepreneur is based on his own risk, which is carried out in the individual program of entrepreneurial activity within the limits of the possibilities arising from the legal documents. Each participant of market relations has predetermined, well-defined parameters, such as a guaranteed share of participation in the market, acquisition of production resources at fixed prices, stability of the purchasing power of monetary units, invariability of norms, regulations and other economic management instruments, success shall be deprived of its guarantees.

Entrepreneur's risk is usually aimed at obtaining significant results with non-traditional methods. In this way, it allows to overcome conservatism, dogmatism, backwardness, and psychological barriers that prevent promising innovations. The ability to take risks is one of the ways to ensure successful business activity. The constructive form of the regulatory function specific to entrepreneurial risk is manifested in it.

As for risks in various sectors of the economy, in the conditions of the market economy, risk is one of the main elements affecting business activity. Specific

features of risk are uncertainty, contingency, uncertainty and guesswork. The level of risk increases in the conditions of political and economic instability.

Risk has two functions: encouraging and protective (Figure 2).



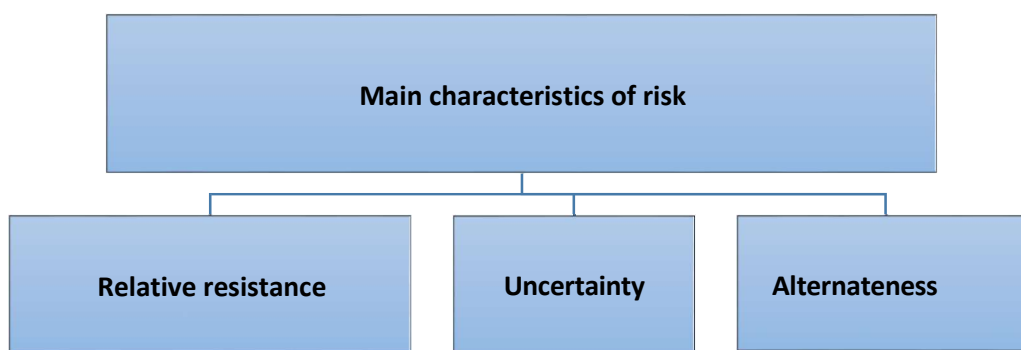
**Figure 2. Risk functions**

The encouraging function of risk has two aspects:

- the first aspect occurs in a situation where risk plays a key role in economic decisions, especially when making innovative and investment decisions;
- and the second aspect arises as a result of decisions taken and implemented with unjustified risk.

The protective function of risk also has two aspects: historical-genetic and socio-legal. The historical-genetic aspect is that people are always looking for ways and means to protect themselves from unexpected unpleasant events. In practice, this is manifested in forms such as the establishment of insured reserve funds, insurance of business risks. The socio-legal aspect is manifested in the introduction of risk categories in the set of economic, labor and criminal legal documents.

In addition to these, there are also the following characteristics of risk:



**Figure 3. Main characteristics of risk**

Contradictions are manifested in the following: risk leads to one-sided important economic, political and spiritual and moral results, that is, it accelerates social and technical development, positively affects the intellectual and moral environment of society. On the other hand, it can have the opposite effect, that is, the risk can hinder socio-economic and spiritual development.

It is known that the economy can be effective only if there is economic freedom, property rights, competition and other market attributes.

Risk is considered one of the main elements of economic activity, and it is a multifaceted concept with a wide meaning. Therefore, in order to achieve the efficiency of economic activity and ensure its financial stability, it is necessary to thoroughly study the existing risks in the economy and their impact on economic activity.

As a conclusion, financial risks are inherent in any economy and play a crucial role in shaping its stability and growth. Whether stemming from market volatility, credit default, liquidity shortages, or external shocks, these risks can have far-reaching consequences, impacting businesses, investors, governments, and individuals alike. Effective risk management strategies, including diversification, hedging, regulatory oversight, and robust financial institutions, are essential for mitigating these risks and safeguarding economic resilience. However, it's important to recognize that complete elimination of financial risks is neither feasible nor desirable, as they are integral to the dynamism and efficiency of modern economies. Instead, a balanced approach that acknowledges and manages these risks while

fostering innovation and growth is key to navigating the complex landscape of financial risks in the economy.

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