Probability and Expected Value (Portfolio)

The Expected Value for a set of outcomes is given by the formula:

$$E = p_1 \cdot x_1 + p_2 \cdot x_2 + \cdots + p_n \cdot x_n$$

where the $x$es represent the possible payoffs, and the $p$s are the probabilities of getting each one. We will do some examples together. \textit{Note that the textbook often uses $x$ to represent probabilities, while we are using $p$ for that job here. This is more consistent with probability theory, and so more correct.}

notes: