Empirical Dynamic Asset Pricing Model Specification And Econometric Assessment

This is a thoroughly updated edition of Dynamic Asset Pricing Theory, the standard text for doctoral students and researchers on the theory of asset pricing and portfolio selection in multiperiod settings under uncertainty. The asset pricing results are based on the three increasingly restrictive assumptions: absence of arbitrage, single-agent optimality, and equilibrium. These results are unified with two key concepts, state prices and martingales. Technicalities are given relatively little emphasis, so as to draw connections between these concepts and to make plain the similarities between discrete and continuous-time models. Readers will be particularly intrigued by this latest edition's most significant new feature: a chapter on corporate securities that offers alternative approaches to the valuation of corporate debt. Also, while much of the continuous-time portion of the theory is based on Brownian motion, this third edition introduces jumps--for example, those associated with Poisson arrivals--in order to accommodate surprise events such as bond defaults. Applications include term-structure models, derivative valuation, and hedging methods. Numerical methods covered include Monte Carlo simulation and finite-difference solutions for partial differential equations. Each chapter provides extensive problem exercises and notes to the literature. A system of appendixes reviews the necessary mathematical concepts. And references have been updated throughout. With this new edition, Dynamic Asset Pricing Theory remains at the head of the field.

From the field's leading authority, the most authoritative and comprehensive advanced-level textbook on asset pricing In Financial Decisions and Markets, John Campbell, one of the field’s most respected authorities, provides a broad graduate-level overview of asset pricing. He introduces students to leading theories of portfolio choice, their implications for asset prices, and empirical patterns of risk and return in financial markets. Campbell emphasizes the interplay of theory and evidence, as theorists respond to empirical puzzles by developing models with new testable implications. The book shows how models make predictions not only about asset prices but also about investors’ financial positions, and how they often draw on insights from behavioral economics. After a careful introduction to single-period models, Campbell develops multiperiod models with time-varying discount rates, reviews the leading approaches to consumption-based asset pricing, and integrates the study of equities and fixed-income securities. He discusses models with heterogeneous agents who use financial markets to share their risks, but also may speculate against one another on the basis of different beliefs or private information. Campbell takes a broad view of the field, linking asset pricing to related areas, including financial econometrics, household finance, and macroeconomics. The textbook works in discrete time throughout, and does not require stochastic calculus. Problems are provided at the end of each chapter to challenge students to develop their understanding of the main issues in financial economics. The most comprehensive and balanced textbook on asset pricing available, Financial Decisions and Markets is an essential resource for all graduate students and practitioners in finance and related fields. Integrated treatment of asset pricing theory and empirical evidence Emphasis on investors’ decisions Broad view linking the field to financial econometrics, household finance, and macroeconomics Topics treated in discrete time, with no requirement for stochastic calculus Solutions manual for problems available to professors

This text reflects research by European scholars into financial economics. Topics include asset pricing in perfect markets, take-over bids, and the interplay between banks and financial markets.

Finance, Econometrics and System Dynamics presents an overview of the concepts and tools for analyzing complex systems in a wide range of fields. The text integrates complexity with deterministic equations and concepts from real world examples, and appeals to a broad audience.

The definitive graduate textbook on modern macroeconomics Macroeconomic Theory is the most up-to-date graduate-level macroeconomics textbook available today. This revised second edition emphasizes the general equilibrium character of macroeconomics to explain effects across the whole economy while taking into account recent research in the field. It is the perfect resource for students and researchers seeking coverage of the most current developments in macroeconomics. Michael Wickens lays out the core ideas of modern macroeconomics and its links with finance. He presents the simplest general equilibrium macroeconomic model for a closed economy, and then gradually develops a comprehensive model of the open economy. Every important topic is covered, including growth, business cycles, fiscal policy, taxation and debt finance, current account sustainability, and exchange-rate determination. There is also an up-to-date account of monetary policy through inflation targeting. Wickens addresses the interrelationships between macroeconomics and modern finance and shows how they affect stock, bond, and foreign-exchange markets. In this edition, he also examines issues raised by the most recent financial crisis, and two new chapters explore banks, financial intermediation, and unconventional monetary policy, as well as modern theories of unemployment. There is new material in most other chapters, including macrofinance models and inflation targeting when there are supply shocks. While the mathematics in the book is rigorous, the fundamental concepts presented make the text self-contained and easy to use. Accessible, comprehensive, and wide-ranging, Macroeconomic Theory is the standard book on the subject for students and economists. The most up-to-date graduate macroeconomics textbook available today General equilibrium macroeconomics and the latest advances covered fully and completely Two new chapters investigate banking and monetary policy, and unemployment Addresses questions raised by the recent financial crisis Web-based exercises with answers Extensive mathematical appendix for at-a-glance easy reference This book has been adopted as a textbook at the following universities: American University Bentley College Brandeis University Brigham Young University California Lutheran University California State University - Sacramento Cardiff University Carleton University Colorado College Fordham University London Metropolitan University New York University Northeastern University Ohio University - Main Campus San Diego State University St. Cloud State University State University Of New York - Amherst Campus State University Of New York - Buffalo North Campus Temple University - Main Texas Tech University University of Alberta University Of Notre Dame University Of Ottawa University Of Pittsburgh University Of South Florida - Tampa University Of Tennessee University Of Texas At Dallas University Of Washington University of Western Ontario Wesleyan University Western Nevada Community College

The Capital Asset Pricing Model (CAPM) and the mean-variance (M-V) rule, which are based on classic expected utility theory, have been heavily criticized theoretically and empirically. The advent of behavioral economics, prospect theory and other psychology-minded approaches in finance challenges the rational investor model from which CAPM and M-V derive. Haim Levy argues that the tension between the classic financial models and behavioral economics approaches is more apparent than real.

This book aims to relax the tension between the two paradigms. Specifically, Professor Levy shows that although behavioral economics contradicts aspects of expected utility theory, CAPM and M-V are intact in both expected utility theory and cumulative prospect theory frameworks. There is furthermore no evidence to reject CAPM empirically when ex-ante parameters are employed. Professionals may thus comfortably teach and use CAPM and behavioral economics or cumulative prospect theory as coexisting paradigms.

This manuscript is about the joint dynamics of stock returns and trading volume. It grew out of my attempt to construct an intertemporal asset pricing model with rational agents which can. explain the relation between volume, volatility and persistence of stock return documented in empirical literature. Most part of the manuscript is taken from my thesis. I wish to express my deep appreciation to Peter Kugler and Benedikt Poetscher, my advisors of the thesis, for their invaluable guidance and support. I wish to thank Gerhard Orosel and Gerhard Sorger for their encouraging and helpful discussions. Finally, my thanks go to George Tauchen who has been generous in giving me the benefit of his numerical and computational experience, in providing me with programs and in his encouragement. Contents 1 Introduction 1 7 2 Efficient Stock Markets Equilibrium Models of Asset Pricing 8 2. 1 2. 1. 1 The Martigale Model of Stock Prices 8 2. 1. 2 Lucas' Consumption Based Asset Pricing Model 9 2. 2 Econometric Tests of the Efficient Market Hypothesis 13 2. 2. 1 Autocorrelation Based Tests 14 16 2. 2. 2 Volatility Tests Time-Varying Expected Returns 25 2. 2. 3 3 The Informational Role of Volume 29 3. 1 Standard Grossman-Stiglitz Model 31 3. 2 The No-Trad Result of the BEO Model 34 A Model with Nontradable Asset 37 3. 3 4 Volume and Volatility of Stock Returns 43 4. 1 Empirical and Numerical Results 45 4.

Asset Pricing Theory is an advanced textbook for doctoral students and researchers that offers a modern introduction to the theoretical and methodological foundations of competitive asset pricing. Costis Skiadas develops in depth the fundamentals of arbitrage pricing, mean-variance analysis, equilibrium pricing, and optimal consumption/portfolio choice in discrete settings, but with emphasis on geometric and martingale methods that facilitate an effortless transition to the more advanced continuous-time theory. Among the book's many innovations are its use of recursive utility as the benchmark representation of dynamic preferences, and an associated theory of equilibrium pricing and optimal portfolio choice that goes beyond the existing literature. Asset Pricing Theory is complete with extensive exercises at the end of every chapter and comprehensive mathematical appendixes, making this book a self-contained resource for graduate students and academic researchers, as well as mathematically sophisticated practitioners seeking a deeper understanding of concepts and methods on which practical models are built. Covers in depth the modern theoretical foundations of competitive asset pricing and consumption/portfolio choice Uses recursive utility as the benchmark preference representation in dynamic settings Sets the foundations for advanced modeling using geometric arguments and martingale methodology Features self-contained mathematical appendixes Includes extensive end-of-chapter exercises

"Asset Prices, Booms and Recessions" is a book on Financial Economics from a dynamic perspective. It focuses on the dynamic interaction of financial markets and economic activity. The financial markets to be studied here encompasses the money and bond market, credit market, stock market and foreign exchange market. Economic activity is described by the activity of firms, banks, households, governments and countries. The book shows how economic activity affects asset prices and the financial market and how asset prices and financial market volatility feed back to economic activity. The focus in this book is on theories, dynamic models and empirical evidence. Empirical applications relate to episodes of financial instability and financial crises of the U.S., Latin American, Asian as well as Euro-area countries. The current version of the book has moved to a more extensive coverage of the topics in financial economics by updating the literature in the appropriate chapters. Moreover it gives a more extensive treatment of new and more advanced topics in financial economics such as international portfolio theory, multi-agent and evolutionary approaches, capital asset pricing beyond consumption-based models and dynamic portfolio decisions. Overall, the book presents material that researchers and practitioners in financial engineering need to know about economic dynamics and that economists, practitioners and policy makers need to know about the financial market.

In the 2nd edition of Asset Pricing and Portfolio Choice Theory, Kerry E. Back offers a concise yet comprehensive introduction to and overview of asset pricing. Intended as a textbook for asset pricing theory courses at the Ph.D. or Masters in Quantitative Finance level with extensive exercises and a solutions manual available for professors, the book is also an essential reference for financial researchers and professionals, as it includes detailed proofs and calculations as section appendices. The first two parts of the book explain portfolio choice and asset pricing theory in single-period, discrete-time, and continuous-time models. For valuation, the focus throughout is on stochastic discount factors and their properties. A section on derivative securities covers the usual derivatives (options, forwards and futures, and term structure models) and also applications of perpetual options to corporate debt, real options, and optimal irreversible investment. A chapter on "explaining puzzles" and the last part of the book provide introductions to a number of additional current topics in asset pricing research, including rare disasters, long-run risks, external and internal habits, asymmetric and incomplete information, heterogeneous beliefs, and non-expected-utility preferences. Each chapter includes a "Notes and References" section providing additional pathways to the literature. Each chapter also includes extensive exercises.

The financial market melt-down of the years 2007-2009 has posed great challenges for studies on financial economics. This financial economics text focuses on the dynamic interaction of financial markets and economic activity. The financial market to be studied here encompasses the money and bond market, credit market, stock market and foreign exchange market; economic activity includes the actions and interactions of firms, banks, households, governments and countries. The book shows how economic activity affects asset prices and the financial market, and how asset prices and financial market volatility and crises impact economic activity. The book offers extensive coverage of new and advanced topics in financial economics such as the term structure of interest rates, credit derivatives and credit risk, domestic and international portfolio theory, multi-agent and evolutionary approaches, capital asset pricing beyond consumption-based models, and dynamic portfolio decisions. Moreover a completely new section of the book is dedicated to the recent financial market meltdown of the years 2007-2009. Emphasis is placed on empirical evidence relating to episodes of financial instability and financial crises in the U.S. and in Latin American, Asian and Euro-area countries. Overall, the book explains what researchers and practitioners in the financial sector need to know about the financial-real interaction, and what practitioners and policy makers need to know about the financial market.

The 12 articles in this second of two parts condense recent advances on investment vehicles, performance measurement and evaluation, and risk management into a coherent springboard for future research. Written by world leaders in asset pricing research, they present scholarship about the 2008 financial crisis in contexts that highlight both continuity and divergence in research. For those who seek authoritative perspectives and important details, this volume shows how the boundaries of asset pricing have expanded and at the same time have grown sharper and more inclusive. Offers analyses by top scholars of recent asset pricing scholarship Explains how the 2008 financial crises affected theoretical and empirical research Covers core and newly developing fields

The determination of the values of stocks, bonds, options, futures, and derivatives is done by the scientific process of asset pricing, which has developed dramatically in the last few years due to advances in financial theory and econometrics. This book covers the science of asset pricing by concentrating on the most widely used modelling technique called: Linear Factor Modelling. Linear Factor Models covers an important area for Quantitative Analysts/Investment Managers who are developing Quantitative Investment Strategies. Linear factor models

(LFM) are part of modern investment processes that include asset valuation, portfolio theory and applications, linear factor models and applications, dynamic asset allocation strategies, portfolio performance measurement, risk management, international perspectives, and the use of derivatives. The book develops the building blocks for one of the most important theories of asset pricing - Linear Factor Modelling. Within this framework, we can include other asset pricing theories such as the Capital Asset Pricing Model (CAPM), arbitrage pricing theory and various pricing formulae for derivatives and option prices. As a bare minimum, the reader of this book must have a working knowledge of basic calculus, simple optimisation and elementary statistics. In particular, the reader must be comfortable with the algebraic manipulation of means, variances (and covariances) of linear combination(s) of random variables. Some topics may require a greater mathematical sophistication. * Covers the latest methods in this area. * Combines actual quantitative finance experience with analytical research rigour * Written by both quantitative analysts and academics who work in this area

This book analyzes the verification of empirical asset pricing models when returns of securities are projected onto a set of presumed (or observed) factors. Particular emphasis is placed on the verification of essential factors and features for asset returns through model search approaches, in which non-diversifiability and statistical inferences are considered. The discussion reemphasizes the necessity of maintaining a dichotomy between the nondiversifiable pricing kernels and the individual components of stock returns when empirical asset pricing models are of interest. In particular, the model search approach (with this dichotomy emphasized) for empirical model selection of asset pricing is applied to discover the pricing kernels of asset returns.

This two-volume set of 23 articles authoritatively describes recent scholarship in corporate finance and asset pricing. Volume 1 concentrates on corporate finance, encompassing topics such as financial innovation and securitization, dynamic security design, and family firms. Volume 2 focuses on asset pricing with articles on market liquidity, credit derivatives, and asset pricing theory, among others. Both volumes present scholarship about the 2008 financial crisis in contexts that highlight both continuity and divergence in research. For those who seek insightful perspectives and important details, they demonstrate how corporate finance studies have interpreted recent events and incorporated their lessons. Covers core and newly-developing fields Explains how the 2008 financial crises affected theoretical and empirical research Exposes readers to a wide range of subjects described and analyzed by the best scholars

Asset pricing theory abounds with elegant mathematical models. The logic is so compelling that the models are widely used in policy, from banking, investments, and corporate finance to government. To what extent, however, can these models predict what actually happens in financial markets? In The Paradox of Asset Pricing, a leading financial researcher argues forcefully that the empirical record is weak at best. Peter Bossaerts undertakes the most thorough, technically sound investigation in many years into the scientific character of the pricing of financial assets. He probes this conundrum by modeling a decidedly volatile phenomenon that, he says, the world of finance has forgotten in its enthusiasm for the efficient markets hypothesis--speculation. Bossaerts writes that the existing empirical evidence may be tainted by the assumptions needed to make sense of historical field data or by reanalysis of the same data. To address the first problem, he demonstrates that one central assumption--that markets are efficient processors of information, that risk is a knowable quantity, and so on--can be relaxed substantially while retaining core elements of the existing methodology. The new approach brings novel insights to old data. As for the second problem, he proposes that asset pricing theory be studied through experiments in which subjects trade purposely designed assets for real money. This book will be welcomed by finance scholars and all those math--and statistics-minded readers interested in knowing whether there is science beyond the mathematics of finance. This book provided the foundation for subsequent journal articles that won two prestigious awards: the 2003 Journal of Financial Markets Best Paper Award and the 2004 Goldman Sachs Asset Management Best Research Paper for the Review of Finance.

An introduction to the theory and methods of empirical asset pricing, integrating classical foundations with recent developments. This book offers a comprehensive advanced introduction to asset pricing, the study of models for the prices and returns of various securities. The focus is empirical, emphasizing how the models relate to the data. The book offers a uniquely integrated treatment, combining classical foundations with more recent developments in the literature and relating some of the material to applications in investment management. It covers the theory of empirical asset pricing, the main empirical methods, and a range of applied topics. The book introduces the theory of empirical asset pricing through three main paradigms: mean variance analysis, stochastic discount factors, and beta pricing models. It describes empirical methods, beginning with the generalized method of moments (GMM) and viewing other methods as special cases of GMM; offers a comprehensive review of fund performance evaluation; and presents selected applied topics, including a substantial chapter on predictability in asset markets that covers predicting the level of returns, volatility and higher moments, and predicting cross-sectional differences in returns. Other chapters cover production-based asset pricing, long-run risk models, the Campbell-Shiller approximation, the debate on covariance versus characteristics, and the relation of volatility to the cross-section of stock returns. An extensive reference section captures the current state of the field. The book is intended for use by graduate students in finance and economics; it can also serve as a reference for professionals.

Empirical Dynamic Asset PricingModel Specification and Econometric AssessmentPrinceton University Press

This impressive Handbook presents the quantitative techniques that are commonly employed in empirical finance research together with real-world, state-of-the-art research examples. Written by international experts in their field, the unique approach describes a question or issue in finance and then demonstrates the methodologies that may be used to solve it. All of the techniques described are used to address real problems rather than being presented for their own sake, and the areas of application have been carefully selected so that a broad range of methodological approaches can be covered. The Handbook is aimed primarily at doctoral researchers and academics who are engaged in conducting original empirical research in finance. In addition, the book will be useful to researchers in the financial markets and also advanced Masters-level students who are writing dissertations.

Written by one of the leading experts in the field, this book focuses on the interplay between model specification, data collection, and econometric testing of dynamic asset pricing models. The first several chapters provide an in-depth

treatment of the econometric methods used in analyzing financial time-series models. The remainder explores the goodness-of-fit of preference-based and no-arbitrage models of equity returns and the term structure of interest rates; equity and fixed-income derivatives prices; and the prices of defaultable securities. Singleton addresses the restrictions on the joint distributions of asset returns and other economic variables implied by dynamic asset pricing models, as well as the interplay between model formulation and the choice of econometric estimation strategy. For each pricing problem, he provides a comprehensive overview of the empirical evidence on goodness-of-fit, with tables and graphs that facilitate critical assessment of the current state of the relevant literatures. As an added feature, Singleton includes throughout the book interesting tidbits of new research. These range from empirical results (not reported elsewhere, or updated from Singleton's previous papers) to new observations about model specification and new econometric methods for testing models. Clear and comprehensive, the book will appeal to researchers at financial institutions as well as advanced students of economics and finance, mathematics, and science.

The book presents models for the pricing of financial assets such as stocks, bonds, and options. The models are formulated and analyzed using concepts and techniques from mathematics and probability theory. It presents important classic models and some recent 'state-of-the-art' models that outperform the classics.

The essays in this special volume survey some of the most recent advances in the global analysis of dynamic models for economics, finance and the social sciences. They deal in particular with a range of topics from mathematical methods as well as numerous applications including recent developments on asset pricing, heterogeneous beliefs, global bifurcations in complementarity games, international subsidy games and issues in economic geography. A number of stochastic dynamic models are also analysed. The book is a collection of essays in honour of the 60th birthday of Laura Gardini.?

Quantitative finance is a combination of economics, accounting, statistics, econometrics, mathematics, stochastic process, and computer science and technology. Increasingly, the tools of financial analysis are being applied to assess, monitor, and mitigate risk, especially in the context of globalization, market volatility, and economic crisis. This two-volume handbook, comprised of over 100 chapters, is the most comprehensive resource in the field to date, integrating the most current theory, methodology, policy, and practical applications. Showcasing contributions from an international array of experts, the Handbook of Quantitative Finance and Risk Management is unparalleled in the breadth and depth of its coverage. Volume 1 presents an overview of quantitative finance and risk management research, covering the essential theories, policies, and empirical methodologies used in the field. Chapters provide in-depth discussion of portfolio theory and investment analysis. Volume 2 covers options and option pricing theory and risk management. Volume 3 presents a wide variety of models and analytical tools. Throughout, the handbook offers illustrative case examples, worked equations, and extensive references; additional features include chapter abstracts, keywords, and author and subject indices. From "arbitrage" to "yield spreads," the Handbook of Quantitative Finance and Risk Management will serve as an essential resource for academics, educators, students, policymakers, and practitioners.

Presents a selection of the most important articles in the field of financial econometrics. Starting with a review of the philosophical background, this collection covers such topics as the random walk hypothesis, long-memory processes, asset pricing, arbitrage pricing theory, variance bounds tests, term structure models, and more.

In this book the relation between the characteristics of investors' preferences and expectations and equilibrium asset price processes are analysed. It is shown that declining elasticity of the pricing kernel can lead to positive serial correlation of short term asset returns and negative serial correlation of long term returns. Analytical asset price processes are also derived. In contrast to the widely used "empirical" time-series models these processes do not lack a sound economic foundation. Moreover, in contrast to the popular Ornstein Uhlenbeck process and the Constant Elasticity of Variance model the proposed stochastic processes are consistent with a classical representative investor economy.

Gain a deep, intuitive and technical understanding of practical options theory The main challenges in successful options trading are conceptual, not mathematical. Volatility: Practical Options Theory provides financial professionals, academics, students and others with an intuitive as well as technical understanding of both the basic and advanced ideas in options theory to a level that facilitates practical options trading. The approach taken in this book will prove particularly valuable to options traders and other practitioners tasked with making pricing and risk management decisions in an environment where time constraints mean that simplicity and intuition are of greater value than mathematical formalism. The most important areas of options theory, namely implied volatility, delta hedging, time value and the so-called options greeks are explored based on intuitive economic arguments alone before turning to formal models such as the seminal Black-Scholes-Merton model. The reader will understand how the model free approach and mathematical models are related to each other, their underlying theoretical assumptions and their implications to level that facilitates practical implementation. There are several excellent mathematical descriptions of options theory, but few focus on a translational approach to convert the theory into practice. This book emphasizes the translational aspect, while first building an intuitive, technical understanding that allows market makers, portfolio managers, investment managers, risk managers, and other traders to work more effectively within—and beyond—the bounds of everyday practice. Gain a deeper understanding of the assumptions underlying options theory Translate theoretical ideas into practice Develop a more accurate intuition for better time-constrained decision making This book allows its readers to gain more than a superficial understanding of the mechanisms at work in options markets. Volatility gives its readers the edge by providing a true bedrock foundation upon which practical knowledge becomes stronger.

Covers applications to risky assets traded on the markets for funds, fixed-income products and electricity derivatives. Integrates the latest research and includes a new chapter on financial modeling.

Empirical evidence suggests that investor protection has significant effects on ownership concentration and asset prices. We develop a dynamic asset pricing model to address the empirical regularities and uncover some of the underlying mechanisms at play. Our model features a controlling shareholder who endogenously accumulates control over a firm and diverts a fraction of its output. Better investor protection decreases stock holdings of controlling shareholders, increases stock mean-returns, and increases stock return volatilities when ownership concentration is sufficiently high, consistent with the related empirical evidence. The model also predicts that better protection increases interest rates and decreases the controlling shareholder's leverage.

This thesis consists of three essays on empirical asset pricing around three themes: evaluating linear factor asset pricing

models by comparing their misspecified measures, understanding the long-run risk on consumption-leisure to investigate their pricing performances on cross-sectional returns, and evaluating conditional asset pricing models by using the methodology of dynamic cross-sectional regressions. The first chapter is ??Comparing Asset Pricing Models: What does the Hansen-Jagannathan Distance Tell Us?". It compares the relative performance of some important linear asset pricing models based on the Hansen-Jagannathan (HJ) distance using data over a long sample period from 1952-2011 based on U.S. market. The main results are as follows: first, among return-based linear models, the Fama-French (1993) five-factor model performs best in terms of the normalized pricing errors, compared with the other candidates. On the other hand, the macro-factor model of Chen, Roll, and Ross (1986) five-factor is not able to explain industry portfolios: its performance is even worse than that of the classical CAPM. Second, the Yogo (2006) non-durable and durable consumption model is the least misspecified, among consumption-based asset pricing models, in capturing the spread in industry and size portfolios. Third, the Lettau and Ludvigson (2002) scaled consumption-based CAPM (C-CAPM) model obtains the smallest normalized pricing errors pricing gross and excess returns on size portfolios, respectively, while Santos and Veronesi (2006) scaled C-CAPM model does better in explain the return spread on portfolios of U.S. government bonds. The second chapter (??Leisure, Consumption and Long Run Risk: An Empirical Evaluation") uses a long-run risk model with non-separable leisure and consumption, and studies its ability to price equity returns on a variety of portfolios of U.S. stocks using data from 1948-2011. It builds on early work by Eichenbaum et al. (1988) that explores the empirical properties of intertemporal asset pricing models where the representative agent has utility over consumption and leisure. Here we use the framework in Uhlig (2007) that allows for a stochastic discount factor with news about long-run growth in consumption and leisure. To evaluate our long-run model, we assess its performance relative to standard asset pricing models in explaining the cross-section of returns across size, industry and value-growth portfolios. We find that the long-run consumption-leisure model cannot be rejected by the J-statistic and it does better than the standard C-CAPM, the Yogo durable consumption and Fama-French three-factor models. We also rank the normalized pricing errors using the HJ distance: our model has a smaller HJ distance than other candidate models. Our paper is the first, as far as we are aware, to use leisure data with adjusted working hours as a measure of leisure i.e., defined as the difference between a fixed time endowment and the observable hours spent on working, home production, schooling, communication, and personal care (Yang (2010)). The third essay: ??Empirical Evaluation of Conditional Asset Pricing Models: An Economic Perspective" uses dynamic Fama-MacBeth cross-sectional regressions and tests the performance of several important conditional asset pricing models when allowing for time-varying price of risk. It compares the performance of conditional asset pricing models, in terms of their ability to explain the cross-section of returns across momentum, industry, value-growth and government bond portfolios. We use the new methodology introduced by Adrian et al. (2012). Our main results are as follows: first we find that the Lettau and Ludvigson (2001) conditional model does better than other models in explaining the cross-section of momentum and value-growth portfolios. Second we find that the Piazessi et al. (2007) consumption model does better than others in pricing the cross-section of industry portfolios. Finally, we find that in the case of the cross-section of risk premia on U.S. government bond portfolios the conditional model in Santos and Veronesi (2006) outperforms other candidate models. Overall, however, the Lettau and Ludvigson (2001) model does better than other candidate models. Our main contributions here is using a recently developed method of dynamic Fama-MacBeth regressions to evaluate the performance of leading conditional CAPM (C-CAPM) models in a common set of test assets over the time period from 1951-2012.

This collection of original articles—8 years in the making—shines a bright light on recent advances in financial econometrics. From a survey of mathematical and statistical tools for understanding nonlinear Markov processes to an exploration of the time-series evolution of the risk-return tradeoff for stock market investment, noted scholars Yacine Aït-Sahalia and Lars Peter Hansen benchmark the current state of knowledge while contributors build a framework for its growth. Whether in the presence of statistical uncertainty or the proven advantages and limitations of value at risk models, readers will discover that they can set few constraints on the value of this long-awaited volume. Presents a broad survey of current research—from local characterizations of the Markov process dynamics to financial market trading activity Contributors include Nobel Laureate Robert Engle and leading econometricians Offers a clarity of method and explanation unavailable in other financial econometrics collections

This introduction to general equilibrium modelling takes an integrated approach to the analysis of macroeconomics and finance. It provides students, practitioners, and policymakers with an easily accessible set of tools that can be used to analyze a wide range of economic phenomena. Key features: • Provides a consistent framework for understanding dynamic economic models • Introduces key concepts in finance in a discrete time setting • Develops simple recursive approach for analyzing a variety of problems in a dynamic, stochastic environment • Sequentially builds up the analysis of consumption, production, and investment models to study their implications for allocations and asset prices • Reviews business cycle analysis and the business cycle implications of monetary and international models • Covers latest research on asset pricing in overlapping generations models and on models with borrowing constraints and transaction costs • Includes end-of-chapter exercises allowing readers to monitor their understanding of each topic Online resources are available at www.cambridge.org/altug_labadie

This book illustrates the application of the economic concept of stochastic dominance to option markets and presents an alternative option pricing paradigm to the prevailing no arbitrage simultaneous equilibrium in the frictionless underlying and option markets. This new methodology was developed primarily by the author, working independently or jointly with other co-authors, over the course of more than thirty years. Among others, it yields the fundamental Black-Scholes-Merton option value when markets are complete, presents a new approach to the pricing of rare event risk, and uncovers option mispricing that leads to tradeable strategies in the presence of transaction costs. In the latter case it shows how a

utility-maximizing investor trading in the market and a riskless bond, subject to proportional transaction costs, can increase his/her expected utility by overlaying a zero-net-cost portfolio of options bought at their ask price and written at their bid price, irrespective of the specific form of the utility function. The book contains a unified presentation of these methods and results, making it a highly readable supplement for educators and sophisticated professionals working in the popular field of option pricing. It also features a foreword by George Constantinides, the Leo Melamed Professor of Finance at the Booth School of Business, University of Chicago, USA, who was a co-author in several parts of the book.
This book is intended as a textbook for Ph.D. students in finance and as a reference book for academics. It is written at an introductory level but includes detailed proofs and calculations as section appendices. It covers the classical results on single-period, discrete-time, and continuous-time models. It also treats various proposed explanations for the equity premium and risk-free rate puzzles: persistent heterogeneous idiosyncratic risks, internal habits, external habits, and recursive utility. Most of the book assumes rational behavior, but two topics important for behavioral finance are covered: heterogeneous beliefs and non-expected-utility preferences. There are also chapters on asymmetric information and production models. The book includes numerous exercises designed to provide practice with the concepts and also to introduce additional results. Each chapter concludes with a notes and references section that supplies references to additional developments in the field.
The past twenty years have seen an extraordinary growth in the use of quantitative methods in financial markets. Finance professionals now routinely use sophisticated statistical techniques in portfolio management, proprietary trading, risk management, financial consulting, and securities regulation. This graduate-level textbook is intended for PhD students, advanced MBA students, and industry professionals interested in the econometrics of financial modeling. The book covers the entire spectrum of empirical finance, including: the predictability of asset returns, tests of the Random Walk Hypothesis, the microstructure of securities markets, event analysis, the Capital Asset Pricing Model and the Arbitrage Pricing Theory, the term structure of interest rates, dynamic models of economic equilibrium, and nonlinear financial models such as ARCH, neural networks, statistical fractals, and chaos theory. Each chapter develops statistical techniques within the context of a particular financial application. This exciting new text contains a unique and accessible combination of theory and practice, bringing state-of-the-art statistical techniques to the forefront of financial applications. Each chapter also includes a discussion of recent empirical evidence, for example, the rejection of the Random Walk Hypothesis, as well as problems designed to help readers incorporate what they have read into their own applications.
Twelve papers focus on investment analysis, portfolio theory, and their implementation in portfolio management