Syllabus

Course: Asset Pricing IV – Topics in Asset Pricing Models

Professor: Fernando Chague

2ND QUARTER OF 2018

In this course we present the latest asset pricing models based on the problem of representative agents. It starts with the canonical Consumption CAPM model and how it fails to capture the main empirical features of stocks returns—the so-called equity, risk-free, and volatility puzzles. Then, as the literature evolves to reconcile theory with data, the latest models are introduced. We discuss models based on external habit and Epstein-Zin preferences; consumption processes subject to rare disaster shocks and long-run risks; consumption of durable goods and housing; models that deal with incomplete markets with heterogenous agents; and, finally, models with incomplete information and learning.

PROGRAM

1. Introduction
2. Canonical consumption-based asset pricing model
3. External habit
4. Recursive preferences
5. Long-run risks
6. Rare disasters
7. Multiple goods
8. Heterogeneous agents
9. Learning

BIBLIOGRAPHY

Main textbooks:


GRADING

20% participation

40% in-class examination

40% take-home examination

CONTACT

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DETAILED PROGRAM

1. Introduction
   - JC, chapter 1
   - KB, chapters 1, 3, 7
     Asset Pricing, Part 2: Habit Formation, Conditional Risks, Long-Run Risks, and Rare

2. Canonical consumption-based asset pricing model
   - CM, chapter 8
   - KB, chapter 10
   - JC, chapter 21
   - Breeden, D. (1979) “An Intertemporal Asset Pricing Model with Stochastic Consumption and
     Economics, 15, 145-161.
     Monetary Economics, 24, 401-421
3. **External habit**
- CM, cap. 9
- KB, cap. 11

4. **Recursive preferences**
- CM, cap. 9
- KB, cap. 11

5. **Long-run risks**
- CM, cap. 9
- KB, cap. 11

6. **Rare disasters**
- CM, cap. 9
- KB, cap. 11

7. **Multiple goods**
- CM, cap. 9
8. **Heterogeneous agents**
   - CM, cap. 9
   - KB, cap. 11

9. **Learning**
   - KB, cap. 23