

Date of the event:

On Monday, 26th September, 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before September 22nd, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Martine Zenner
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<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

***Three Solutions to the Pricing
Kernel Puzzle***

*By Professor Thorsten Hens
University of Zürich, Switzerland*

**Monday, 26th September, 2011
From 01:00 PM to 2:00 PM**



Three Solutions to the Pricing Kernel Puzzle

By Thorsten Hens

The **L**uxembourg **S**chool of **F**inance

Is pleased to invite you to the

LSF Seminar

The pricing kernel is an important link between economics and finance. In standard models of financial economics it is proportional to the aggregate utility in the economy. These models have complete markets and risk-averse agents with correct beliefs. Consequently, the pricing kernel in these models is a decreasing function of aggregate resources. However, there is ample empirical evidence that the pricing kernel has some increasing parts, which is the so called pricing kernel puzzle. In this paper we first show that neither of the three assumptions is needed for the pricing kernel to be generally decreasing and we show then that if at least one of the three assumptions is violated, the pricing kernel can have increasing parts. We explain the economic principles that lead to the increasing part in the pricing kernel. In order to check the empirical relevance of the different possible explanations, the resulting pricing kernels are then compared with the empirical pricing kernel estimated in Jackwerth (2000).

