Asset Pricing

Japanese asset price bubble 'bubble economy') was an economic bubble in Japan from 1986 to 1991 in which real estate and stock market prices were greatly inflated. Through the creation of economic policies that cultivated the marketability of assets, eased the access to credit, and encouraged speculation, the Japanese government started a prolonged and exacerbated Japanese asset price bubble. The Japanese asset price bubble (□□□□□, baburu keiki; lit. In early 1992, this price bubble burst and the country's economy stagnated. More specifically, over-confidence and speculation regarding asset and stock prices were associated with financial policy deemed to exacerbate them. 'bubble economy') was an economic bubble in Japan from 1986 to 1991 in which real estate and The Japanese asset price bubble (□□□□□, baburu keiki; lit. The bubble was characterized by rapid acceleration of asset prices and overheated economic activity, as well as an uncontrolled money supply and credit expansion 8a5d6ecdb6

Asset pricing The treatment inheres the interrelated paradigms of general equilibrium asset pricing and rational asset pricing, the latter corresponding to risk neutral pricing. The treatment In financial economics, asset pricing refers to the formal development of the principles used in pricing, together with the resultant models. In financial economics, asset pricing refers to the formal development of the principles used in pricing, together with the resultant models 8a5d6ecdb6

When people talk about inflation, they usually refer to ordinary goods and services, which are tracked by the Consumer Price Index (CPI). This index excludes most financial assets and capital assets. Inflation of such assets should not be confused with inflation of consumer goods and services, as prices in the two categories are not directly correlated. The prices of some goods and services, such as housing, energy, and food, do track closely with some financial assets. 8a5d6ecdb6

Consumption-based capital asset pricing model required) return on an investment, both across assets and over The consumption-based capital asset pricing model (CCAPM) is a model of the determination of expected (i. The foundations of this concept were laid by the research of Robert Lucas (1978) and Douglas Breeden (1979). e. required) return on an investment, both across assets and over time. capital asset pricing model (CCAPM) is a model of the determination of expected (i. e 8a5d6ecdb6

In a discrete (i.e. finite state) market, the following hold: 8a5d6ecdb6

Intertemporal CAPM intertemporal capital asset pricing model, or ICAPM, created by Robert C. Merton, is an alternative to the capital asset pricing model (CAPM). It is a In mathematical finance, the intertemporal capital asset pricing model, or ICAPM, created by Robert C. Merton, is an alternative to the capital asset pricing model (CAPM). It is a linear factor model with wealth as state variable that forecasts changes in the distribution of future returns or income 8a5d6ecdb6

Merton considers a continuous time market in equilibrium. 8a5d6ecdb6 TAPA approach originates with the framing of the dynamic inter-temporal principle of transactional equity-in-exchange for buyers and sellers in an asset transaction, the essence of which is that by the end of the analysis projection period 8a5d6ecdb6 Examples of typical assets are shares and bonds (and their related contracts... 8a5d6ecdb6 In the ICAPM investors are solving lifetime consumption decisions when faced with more than one uncertainty. The main difference between ICAPM and standard CAPM is the additional state variables that acknowledge the fact that investors hedge against shortfalls in consumption or against changes in the future investment opportunity set. 8a5d6ecdb6 The CAPM can be derived from the following special cases of the CCAPM: (1) a two-period model with quadratic utility, (2) two-periods, exponential utility, and normally-distributed returns, (3) infinite-periods, quadratic utility, and stochastic independence across time, (4) infinite periods and log utility, and (5) a first-order approximation... 8a5d6ecdb6

Arbitrage pricing theory Furthermore, the newer APT model is more dynamic. Consequently, it provides traders with an indication of ‘true’ asset value and enables exploitation of market discrepancies via arbitrage. As such, APT argues that when opportunities for arbitrage are exhausted in a given period, then the expected return of an asset is a linear function of various factors or theoretical market indices, where sensitivities of each factor is represented by a factor-specific beta coefficient or factor loading. arbitrage pricing theory (APT) is a multi-factor model for asset pricing which relates various macro-economic (systematic) risk variables to the pricing of financial In finance, arbitrage pricing theory (APT) is a multi-factor model for asset pricing which relates various macro-economic (systematic) risk variables to the pricing of financial assets. APT is founded upon the law of one price, which suggests that within an equilibrium market, rational investors will implement arbitrage such that the equilibrium price is eventually realised. Proposed by economist Stephen Ross in 1976, it is widely believed to be an improved alternative to its predecessor, the capital asset pricing model (CAPM). The linear factor model structure of the APT is used as the basis for evaluating asset allocation, the performance of managed funds as well as the calculation of cost of capital 8a5d6ecdb6

== General equilibrium asset pricing == 8a5d6ecdb6 The primary beneficiaries of rising asset prices are usually those who earn the highest wages or salaries, since the tendency to save and to invest is higher. 8a5d6ecdb6 Investment theory, which is near synonymous, encompasses the body of knowledge used to support the decision-making process of choosing investments, and the asset pricing models are then applied in determining the asset-specific required rate of return on the investment in question, and for hedging. 8a5d6ecdb6 The model can be considered a generalization of the capital asset pricing model (CAPM). While the CAPM is derived in a static, one-period setting, the CCAPM uses a more realistic, multiple-period setup. The central implication of the CCAPM is that the expected return on an asset is related to "consumption risk", that is, how much the return on the asset correlates with aggregate consumption in the economy. Assets whose returns covaries a lot with aggregate consumption offer large expected returns, as investors want to be compensated for bearing consumption risk. 8a5d6ecdb6

Fundamental theorem of asset pricing Though this property is common in models, it is not always considered desirable or realistic. Completeness is a common property of market models (for instance the Black–Scholes model). The first theorem is important in that it ensures a fundamental property of market models. A complete market is one in which every contingent claim can be replicated. An arbitrage opportunity is a way of making money with no initial investment without any possibility of loss. The fundamental theorems of asset pricing (also: of arbitrage, of finance), in both financial economics and mathematical finance, provide necessary and The fundamental theorems of asset pricing (also: of arbitrage, of finance), in both financial economics and mathematical finance, provide necessary and sufficient conditions for a market to be arbitrage-free, and for a market to be complete. Though arbitrage opportunities do exist briefly in real life, it has been said that any sensible market model must avoid this type of profit 8a5d6ecdb6

Asset price inflation To still get a return on their money, investors instead have to buy up other assets such as stocks and real estate, thereby bidding up the price and creating asset price inflation. Asset price inflation is the economic phenomenon whereby the price of assets rises and becomes inflated. A common reason for higher asset prices is low Asset price inflation is the economic phenomenon whereby the price of assets rises and becomes inflated. When interest rates are low, investors and savers cannot make easy returns using low-risk methods such as government bonds or savings accounts. A common reason for higher asset prices is low interest rates 8a5d6ecdb6

Under general equilibrium theory prices are determined through market pricing by supply and demand. 8a5d6ecdb6 By August 1990, the Nikkei stock index had plummeted to half its peak by the time of the fifth monetary tightening by the Bank of Japan (BOJ). By late 1991, other asset prices began to fall. Even though asset prices had visibly collapsed by early 1992, the economy's decline continued for more than a decade. This decline resulted in a huge accumulation of non-performing asset loans (NPL... 8a5d6ecdb6 CAPM assumes a particular form of utility functions (in which only first and second moments matter, that is risk is measured by variance, for example a quadratic utility) or alternatively asset returns whose probability distributions are completely described by the first two moments (for example, the normal distribution) and zero transaction costs (necessary for diversification to get rid of all idiosyncratic risk). Under these conditions, CAPM shows that the cost of equity capital is determined only by beta. Despite its failing numerous empirical tests, and the existence of more modern approaches to asset pricing and portfolio selection (such as arbitrage pricing theory and Merton... 8a5d6ecdb6 == Continuous time version == 8a5d6ecdb6 is the assumption that asset pricing models must reflect the arbitrage-free price of the asset. 8a5d6ecdb6 == General overview == 8a5d6ecdb6

Capital asset pricing model The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk), often represented by the quantity beta (β) in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset. the existence of more modern approaches to asset pricing and portfolio selection (such as arbitrage pricing theory and Merton's portfolio problem), the In finance, the capital asset pricing model (CAPM) is a model used to determine a theoretically appropriate required rate of return of an asset, to make decisions about adding assets to a well-diversified portfolio 8a5d6ecdb6

Rational pricing underpins the fundamental theorem of asset pricing, and is a key aspect of mathematical finance, defining the pricing of derivatives and fixed income securities In financial economics, rational pricing 8a5d6ecdb6

== Discrete markets == 8a5d6ecdb6 The state variable (X) follows a Brownian motion: 8a5d6ecdb6

Transactional Asset Pricing Approach department of economics, the Transactional Asset Pricing Approach (TAPA) is a general reconstruction of asset pricing theory developed in 2000s by a collaboration In the valuation theory department of economics, the Transactional Asset Pricing Approach (TAPA) is a general reconstruction of asset pricing theory developed in 2000s by a collaboration of Russian and Israeli economists Vladimir B. Michaletz and Andrey I. Artemenkov. It provides a basis for reconstructing the discounted cash flow (DCF) analysis and the resulting income capitalization techniques, such as the Gordon growth formula (see dividend discount model), from a transactional perspective relying, in the process, on a formulated dynamic principle of transactional equity-in-exchange

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