

## Term Structures and Cross-Sections of Asset Risk Premia

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The project has the goal of improving our understanding of the prices of individual financial assets across different markets, as a function of the level and the term structure of their risks or uncertainty. We plan to proceed along two main directions:

- 1) Develop new structural and reduced-form models for the description and explanation of large cross-sections of risk-uncertainty premia and/or their term structures.
- 2) Develop new econometric methods and empirical approaches for analyzing large panels of individual risk premia, while accounting for their term structure information, where available.

Our structural analysis will focus on equilibrium Lucas-type economies with heterogeneous beliefs and models incorporating Knightian uncertainty, to derive empirically testable predictions for the cross-section and the term structure of risk-uncertainty premia. We will try to specify and verify empirically the joint predictions for the dynamics of beliefs and ambiguity, the heterogeneity of beliefs and asset returns.

On the empirical level, one area of research will focus on methodologies allowing for a coherent and more efficient estimation of the prices of risk and uncertainty in large panels of assets and asset categories, including, e.g., individual stocks, mutual funds and hedge funds. We will study empirically the structures of risk and uncertainty premia identified by the new methods and their relation to well-known asset pricing puzzles in the literature. Finally, based on the estimated conditional risk-return tradeoffs, we will study approaches that ensure a more robust identification of asset classes and funds with improved performance relative to a given benchmark.

### Research Team

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**Fields of Research:** Capital Markets, Asset Pricing, Option Pricing, Experimental and Behavioral Finance, International Finance, Financial Regulation, Financial Econometrics