Micro Uncertainty and Asset Prices

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Discussant: **Andrei S. Gonçalves**

2021 LubraFin Conference

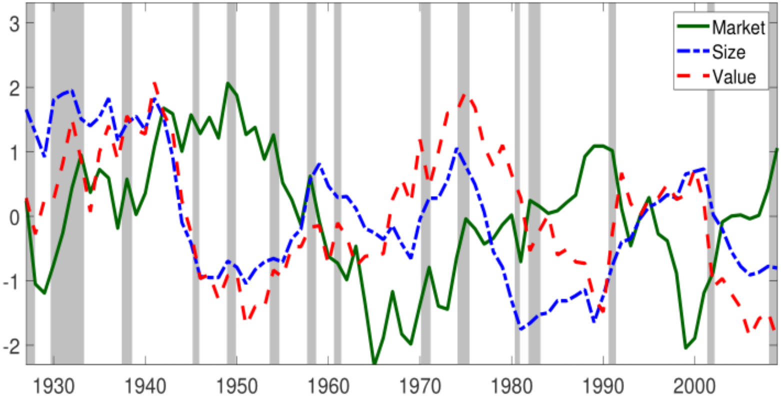
Outline

The Paper

My Comments

Final Remarks

The Paper in a Nutshell



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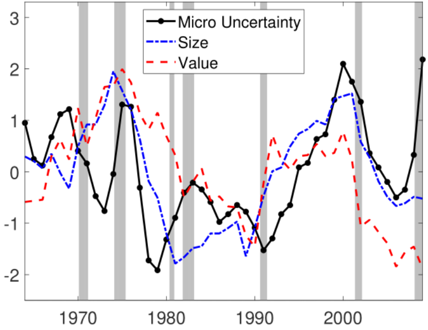
Micro Uncertainty ⇒ Size/Value Premia



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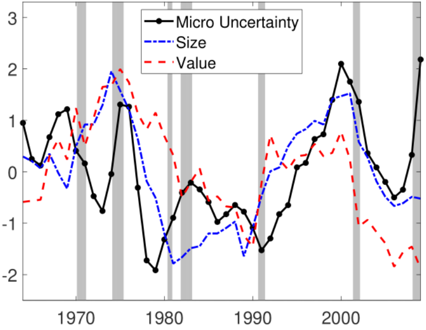
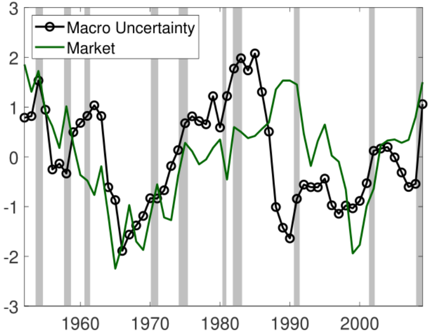


Macro Uncertainty ⇒ Equity Premium



Outline

1) Growth Volatility vs $\mathbb{E}$[Growth] Volatility

$$\Delta c_{t+1} = \mu + x_t + \sigma_c \cdot \sigma_t \cdot \epsilon_{c,t+1}$$

$$x_{t+1} = \rho_x \cdot x_t + \sigma_x \cdot \sigma_t \cdot \epsilon_{x,t+1}$$

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- Model mechanism implies: $Cor(\sigma_t, \text{Value/Size Premia}) < 0$

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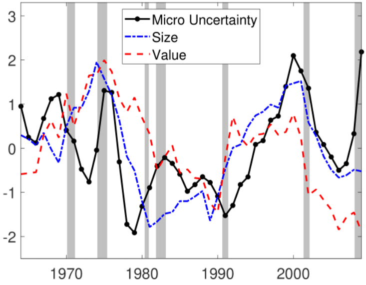

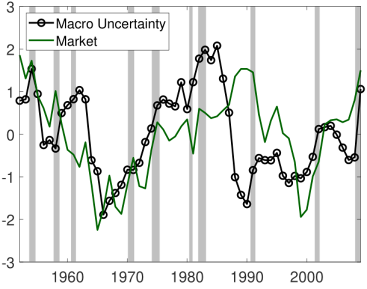

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$$\mathbb{E}_{t+1}[g] \;=\; \theta_0 \;+\; \theta_1 \cdot \mathbb{E}_t[g] \;+\; u_{t+1}$$

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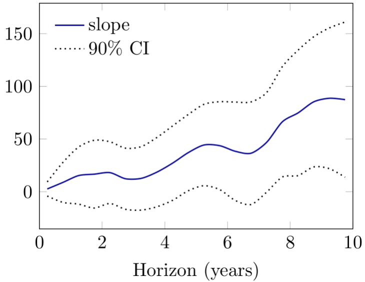

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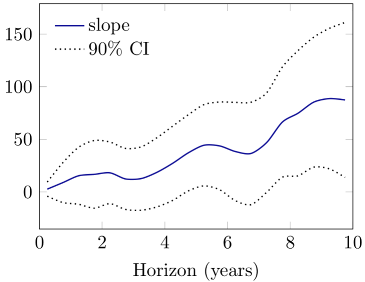

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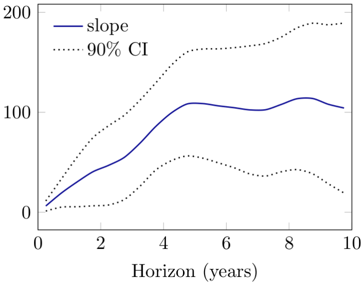

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- Garcia, Mantilla-García, and Martellini (2014): cross-sectional return dispersion is an efficient estimate for average IVOL
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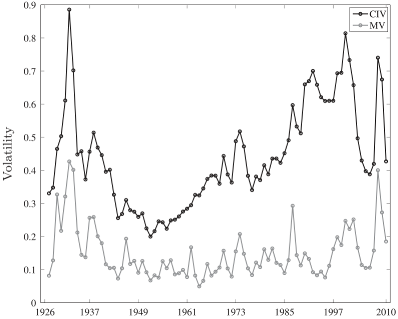

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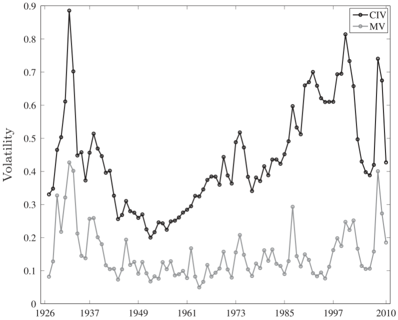

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- In the recent LRR literature, w_t shocks explain the equity premium, not x_t shocks (e.g., Bansal et al (2014, JF))
- Aggregate productivity in the model:
- How correlated are $log(Y_t/Y_{t-1})$ and Δc_t in the model vs the data (important since it is partial equilibrium)?

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