

Accepted Manuscript

Asset prices and wealth dynamics in a financial market with random demand shocks

Pietro Dindo, Jacopo Staccioli

PII: S0165-1889(18)30270-7
DOI: <https://doi.org/10.1016/j.jedc.2018.08.009>
Reference: DYNCON 3620

To appear in: *Journal of Economic Dynamics & Control*

Received date: 18 December 2017
Revised date: 10 August 2018
Accepted date: 21 August 2018

Please cite this article as: Pietro Dindo, Jacopo Staccioli, Asset prices and wealth dynamics in a financial market with random demand shocks, *Journal of Economic Dynamics & Control* (2018), doi: <https://doi.org/10.1016/j.jedc.2018.08.009>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Asset prices and wealth dynamics in a financial market with random demand shocks*

Pietro Dindo^{†‡§}

Jacopo Staccioli[§]

4th September 2018

Abstract

We study a financial market where some of the investors' demands for a risky asset are exposed to random shocks. These shocks encompass a source of return variability whenever the wealth of traders subject to them is large, due to their transmission onto market clearing prices. By analytically investigating the underlying price and wealth dynamics, we provide conditions on agents' portfolios under which such pass-through is either maximal, when the traders subject to demand shocks dominate, minimal, when the traders subject to demand shocks vanish, or endogenously determined, when all traders survive and their relative wealth dynamics is a mean reverting process. In particular, the pass-through emerges only when the average position in the risky asset of the traders subject to demand shocks is large enough to compensate from the losses they incur from buying at a high price (selling at a low price) whenever a positive (negative) demand shock occurs.

JEL classification: G11, G12, C62.

Keywords: Random Demand Shocks, Asset Pricing, Evolutionary Finance, Heterogeneous Agents, Noise Traders, Random Dynamical Systems.

*We wish to thank Mikhail Anufriev, Giulio Bottazzi, Giovanni Dosi, Fabio Tramontana, participants to the CEF 2016 Conference (Bordeaux, France), the SNDE 2017 Symposium (Paris, France), the WEHIA 2017 Conference (Milan, Italy), the NED 2017 Conference (Pisa, Italy), the International Workshop on Economic Growth, Macroeconomic Dynamics and Agents' Heterogeneity (St. Petersburg, Russia), and to department seminars at Hokkaido University (Sapporo, Japan) and GREDEG (Valbonne, France), and two anonymous referees for helpful comments and insightful suggestions at various stages of this work. Pietro Dindo acknowledges support from the Marie Curie International Outgoing Fellowship PEOF-GA-2011-300637 within the 7th European Community Framework Programme. The usual disclaimer applies.

[†]To whom correspondence should be addressed: ✉ pietro.dindo@unive.it

[‡]Department of Economics, Università Ca' Foscari Venezia, Cannaregio 873, 30121 Venezia, Italy.

[§]Institute of Economics, Scuola Superiore Sant'Anna, Piazza Martiri della Libertà 33, 56127 Pisa, Italy.

Download English Version:

<https://daneshyari.com/en/article/10226784>

Download Persian Version:

<https://daneshyari.com/article/10226784>

[Daneshyari.com](https://daneshyari.com)