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Authors: Athanasios P. Fassas, Stephanos Papadamou

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Variance Risk Premium and Equity Returns

Athanasios P. Fassas¹ and Stephanos Papadamou²

¹ Department of Economics, University of Thessaly, 28 Octovriou str, 38333, Volos, Greece. Email: afassas@uom.gr

² Department of Economics, University of Thessaly, 28 Octovriou str, 38333, Volos, Greece. Email: stpapada@uth.gr

Graphical abstract



ABSTRACT

This study contributes to the age-old question of whether stock market returns are predictable by investigating the relationship of variance risk premium and equity returns. The volatilities derived from options prices typically exceed the corresponding subsequent realized volatilities of the underlying asset, suggesting that investors require additional compensation for bearing volatility risk. Therefore, an implied volatility index reflects not only the expected stock market uncertainty,

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