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Assessing Asset Pricing Models using Revealed Preference[☆]

Jonathan B. Berk* and Jules H. van Binsbergen**

Abstract

We propose a new method of testing asset pricing models that relies on quantities rather than just prices or returns. We use the capital flows into and out of mutual funds to infer which risk model investors use. We derive a simple test statistic that allows us to infer, from a set of candidate models, the risk model that is closest to the model that investors use in making their capital allocation decisions. Using our method, we assess the performance of the most commonly used asset pricing models in the literature.

JEL classification: G23, G20, G11, J31

Keywords: Mutual funds, Managerial skill, Alpha

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