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Seryoung Ahn, Kyoung Jin Choi, Hyeng Keun Koo

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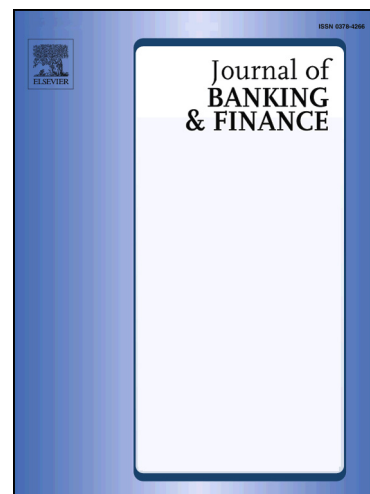
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# A Simple Asset Pricing Model with Heterogeneous Agents, Uninsurable Labor Income and Limited Stock Market Participation<sup>☆</sup>

Seryoong Ahn<sup>a</sup>, Kyoung Jin Choi<sup>b,\*</sup>, Hyeng Keun Koo<sup>c</sup>

<sup>a</sup>*Department of Industrial and Management Engineering, Pohang University of Science and Technology, Korea*

<sup>b</sup>*Haskayne School of Business, University of Calgary, Canada*

<sup>c</sup>*Graduate Department of Financial Engineering, Ajou University, Korea*

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## Abstract

In this paper we study a simple two-period asset pricing model to understand the implications of uninsurable labor income risk and/or borrowing constraints, limited stock market participation, heterogeneous labor income volatilities, and heterogeneous preferences. We appraise the performance of each of these in matching moments of asset returns to the data and show that limited stock market participation generates a significantly large equity premium. We also show that the distribution of wealth between stock market participants and non-participants plays an important role in asset pricing, and that the effect of borrowing constraints on asset returns are similar to that of limited participation. Finally, we discuss the practical implications of our investigation, providing an appraisal of ongoing changes in asset returns.

*Keywords:* asset pricing, general equilibrium, equity premium, uninsurable labor income, limited stock market participation, heterogeneous preference, borrowing constraint

*JEL classification:* G10; G11; G12

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\*Corresponding author

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