

## Accepted Manuscript

A two-step indirect inference approach to estimate the long-run risk asset pricing model

Joachim Grammig, Eva-Maria Küchlin

PII: S0304-4076(18)30042-3

DOI: <https://doi.org/10.1016/j.jeconom.2018.03.003>

Reference: ECONOM 4482

To appear in: *Journal of Econometrics*



Please cite this article as: Grammig J., Küchlin E.-M., A two-step indirect inference approach to estimate the long-run risk asset pricing model. *Journal of Econometrics* (2018), <https://doi.org/10.1016/j.jeconom.2018.03.003>

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.

# A two-step indirect inference approach to estimate the long-run risk asset pricing model

Joachim Grammig <sup>\*1</sup> and Eva-Maria Küchlin<sup>2</sup>

<sup>1</sup>University of Tübingen and Centre for Financial Research, Cologne

<sup>2</sup>University of Tübingen

January 17, 2018

## Abstract

The long-run consumption risk model provides a theoretically appealing explanation for prominent asset pricing puzzles, but its intricate structure presents a challenge for econometric analysis. This paper proposes a two-step indirect inference approach that disentangles the estimation of the model's macroeconomic dynamics and the investor's preference parameters. A Monte Carlo study explores the feasibility and efficiency of the estimation strategy. We apply the method to recent U.S. data and provide a critical re-assessment of the long-run risk model's ability to reconcile the real economy and financial markets. This two-step indirect inference approach is potentially useful for the econometric analysis of other prominent consumption-based asset pricing models that are equally difficult to estimate.

*Key words:* indirect inference estimation, asset pricing, long-run risk

*JEL:* C58, G10, G12

---

\*Corresponding author: joachim.grammig@uni-tuebingen.de, +49-7071-2976009, University of Tübingen, Department of Econometrics, Mohlstrasse 36, D-72074 Tübingen, Germany.

Download English Version:

<https://daneshyari.com/en/article/7357874>

Download Persian Version:

<https://daneshyari.com/article/7357874>

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