

Maria Grith, Wolfgang K. Härdle, Volker Krätschmer – An Axiomatic and Data Driven View on the EPK Paradox

Abstract: Supported by several recent investigations the empirical pricing kernel (EPK) paradox might be considered as a stylized fact. Some authors suggest that this paradox might be caused by regime switching in financial markets. Based on an economic model with state dependent utilities for the financial investors we want to emphasize a microeconomic view that succeeds in explaining the paradox via state dependent preferences. We shall also develop and investigate calibration problems in terms of data sets for basic values of the pricing kernel.