

Financial Economics
Reading List: Part I.

Other Books:

- ◇ Cochrane, J., *Asset Pricing*, Princeton University Press, 2001.
- ◇ Duffie, D., *Dynamic Asset Pricing*, Princeton University Press, 1996.
- ◇ Brunnermeier, Markus, *Asset Pricing under Asymmetric Information—Bubbles, Crashes, Technical Analysis and Herding*, Oxford University Press, 2001.
- ◇ Vives, Xavier, *Information and Learning in Markets: The Impact of Market Microstructure*, Princeton University Press, 2008.

Non-Expected Utility: Theory

- Gilboa, I. and D. Schmeidler (1989), “Maxmin expected utility with non unique prior,” *Journal of Mathematical Economics*, **18**, pp. 141-153.
- Schmeidler, D. (1989), “Subjective Probability and Expected Utility Without Additivity,” *Econometrica*, **57**, pp. 517-587.
- Quiggin, J., (1982) “A Theory of Anticipated Utility,” *Journal of Economic Behavior and Organization*, **3**, pp. 323-343.
- Tversky, A. and D. Kahneman (1992), “Advances in Prospect Theory: Cumulative Representation of Uncertainty,” *Journal of Risk and Uncertainty*, **5**, pp. 297–323.
- Maccheroni, F, Marinacci M. and A. Rustichini (2006), “Ambiguity Aversion, Robustness, and the Variational Representation of Preferences,” *Econometrica*, **74**, 1447-1498.
- Ghirardato, P. and Marinacci, M. “Ambiguity Made Precise: A Comparative Foundation,” *Journal of Economic Theory*, **102**, (2002), 251-289.
- P. Klibanoff, M. Marinacci and S. Mukherji. “A Smooth Model of Decision Making under Ambiguity” *Econometrica*, **73**, No. 6, 1849-92, (2005)
- Strzalecki, T. (2008) “Axiomatic Foundations of Multiplier Preferences,” working paper, Northwestern U.
- Strzalecki, T. Probabilistic Sophistication and Variational Preferences, mimeographed, 2009

Werner, J. (2005), “Risk Aversion for Multiple-Prior Expected Utility,” mimeo.

Implications of Non-expected Utilities

Dow, J. and S. Werlang (1992), “Uncertainty aversion, risk aversion, and the optimal choice of portfolio,” *Econometrica*, **60**, pp. 197-204. pp. 953–957.

Dana, R.A. “Ambiguity, Uncertainty Aversion and equilibrium Welfare” *Economic Theory*, 2004, pg 569–587.

Rigotti, L. and Ch. Shannon, (2005) “Uncertainty and Risk in Financial Markets,” *Econometrica*, vol. 73(1), pp. 203-243.

Rigotti, L. Ch. Shannon and T. Strzalecki, (2008), “Subjective Beliefs and Ex-Ante Trade” *Econometrica* 76, (2008), 1176-1190.

Mukerji, S. and J-M. Tallon, (2001), “Ambiguity Aversion and Incompleteness of Financial Markets,” *Review of Economic Studies*, **68**, pp. 883–904.

Cao, H.H., T. Wang and H.H. Zhang (2005), ”Model Uncertainty, Limited Market Participation and Asset Prices,” *Review of Financial Studies*, **18**, 1219–1251.

Epstein L. and M. Schneider (2008), “Ambiguity, Information Quality and Asset Pricing,” *Journal of Finance*.

Ozsoylev H. and J. Werner (2008), “Liquidity and Asset Prices in Rational Expectations Equilibrium with Ambiguous Information,” working paper.

Strzalecki, T. and J. Werner (2009) “Efficient Allocations under Ambiguity,” working paper.

Ui, T. (2009), “The Ambiguity Premium vs. the Risk Premium under Limited Market Participation,” working paper, Yokohama National University.

Caskey, J.A. (2008), ”Information in Equity Markets with Ambiguity-Averse Investors,” *Review of Financial Studies*, forthcoming.

Condie, S. and J. Ganguli (2007), “Ambiguity and Rational Expectations Equilibria,” working paper, University of Cambridge.

Dynamic Security Markets: Portfolio Constraints and Bubbles

Harrison J. M. and D. Kreps, “Speculative Investor Behavior in a Stock Market with heterogeneous Expectations,” *Quarterly Journal of Economics*, (1978), 323–336.

Huang K. and J. Werner, “Asset Price Bubbles in Arrow-Debreu and Sequential Equilibrium,” *Economic Theory*, **15**, (2000), 253–278.

Santos, M., and M. Woodford, “Rational Asset Pricing Bubbles,” *Econometrica*, **65**, (1997), 19–57.

Kocherlakota, N. “Injecting rational bubbles,” *Journal of Economic Theory*, 2008.

Kocherlakota, N. “Bubbles and Constraints on Debt Accumulation,” *Journal of Economic Theory*, 1992.

Market Liquidity:

- Ozsoylev H. and J. Werner (2006), “Liquidity and Asset Prices in Rational Expectations Equilibrium with Ambiguous Information,” working paper.
- Grossman, S. and M. Miller, “Liquidity and Market Structure,” *The Journal of Finance*, XLIII, No. 3, 1988, pp. 617-633.
- Brunnermeier M. and L.H. Pedersen, “Market Liquidity and Funding Liquidity,” working paper, Princeton University, 2008.
- Morris, S. and H.S. Shin, “Liquidity Black Holes,” *Review of Finance* 8, 2004, 1–18.
- Pastor, L. and R. Stambaugh, “Liquidity Risk and Expected Stock Returns,” *Journal of Political Economy* 11, 2003, 642–685.