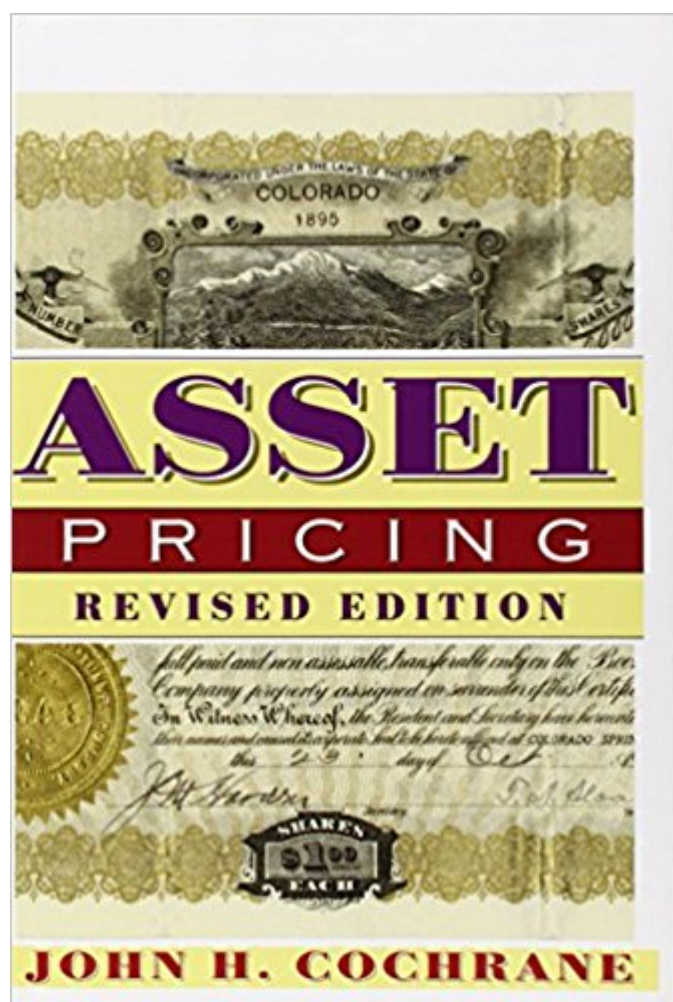


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# Asset Pricing



## Synopsis

Winner of the prestigious Paul A. Samuelson Award for scholarly writing on lifelong financial security, John Cochrane's *Asset Pricing* now appears in a revised edition that unifies and brings the science of asset pricing up to date for advanced students and professionals. Cochrane traces the pricing of all assets back to a single idea--price equals expected discounted payoff--that captures the macro-economic risks underlying each security's value. By using a single, stochastic discount factor rather than a separate set of tricks for each asset class, Cochrane builds a unified account of modern asset pricing. He presents applications to stocks, bonds, and options. Each model--consumption based, CAPM, multifactor, term structure, and option pricing--is derived as a different specification of the discounted factor. The discount factor framework also leads to a state-space geometry for mean-variance frontiers and asset pricing models. It puts payoffs in different states of nature on the axes rather than mean and variance of return, leading to a new and conveniently linear geometrical representation of asset pricing ideas. Cochrane approaches empirical work with the Generalized Method of Moments, which studies sample average prices and discounted payoffs to determine whether price does equal expected discounted payoff. He translates between the discount factor, GMM, and state-space language and the beta, mean-variance, and regression language common in empirical work and earlier theory. The book also includes a review of recent empirical work on return predictability, value and other puzzles in the cross section, and equity premium puzzles and their resolution. Written to be a summary for academics and professionals as well as a textbook, this book condenses and advances recent scholarship in financial economics.

## Book Information

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## Customer Reviews

Given the innumerable finance books available, I find myself constantly trying to separate the wheat from the chaff (and, sadly, finding a whole lot more of the latter than the former). John Cochrane's *Asset Pricing* (2001, Princeton University Press) is not only wheat, but also perhaps the most finely milled flour baked to perfection into one's favorite dessert, served with a chilled glass of Châteaufort d'Yquem. Cochrane identifies his target audience as "economics and finance Ph.D. students, advanced MBA students, or professionals with similar background". Residing in the third camp, I can say from this point of view that this book could have been subtitled, "the Practitioner's Portable Ph.D." Academic researchers, students, and practitioners of finance should all value Cochrane's *Asset Pricing* enough to own a copy. *Asset Pricing* is extremely readable, as Cochrane stresses economic intuition over formal proofs. The book is structured into four parts: 1) asset pricing theory; 2) asset pricing models; 3) options and interest rates; 4) an empirical survey. Cochrane begins powerfully, introducing us to the notion that the consumption-based asset pricing equation, given by an investor's first-order conditions, is the central formulation in asset pricing; market-based models simply consider the market returns specified in the consumption models to be exogenously determined free parameters. Cochrane emphasizes that all factor models are derived as specializations of the consumption-based model, using extra variables to proxy marginal utility. In Part 1, Cochrane covers the field from the Law of One Price, to the mean-variance frontier, to the CCAPM, the CAPM, ICAPM and APT, covering both discrete- and continuous-time, as well as market- and consumption-oriented approaches.

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