Endogenous Random Asset Prices in Overlapping Generations Economies

Volker Böhm
Nicole Deutscher
Jan Wenzelburger

This paper derives a general explicit sequential asset price process for an economy with overlapping generations of consumers. They maximize expected utility with respect to subjective transition probabilities given by Markov kernels. The process is determined primarily by the interaction of exogenous random dividends and the characteristics of consumers, given by arbitrary preferences and expectations, yielding an explicit random dynamical system with expectations feedback.

The paper studies asset prices and equity premia for a parametrized class of examples with CARA utilities and exponential distributions. It provides a completeanalysis of the role of risk aversion and of subjective as well as rational beliefs.

Key words: Dynamics, expectations, random asset pricing, equity premium.
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Correspondence:
University of Bielefeld
Department of Economics
P.O. Box 100 131
D-33501 Bielefeld
Germany
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vboehm@wiwi.uni-bielefeld.de