

Publication

Asset Pricing without Garbage

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This paper provides an explanation why garbage implies a much lower relative risk aversion in the consumption-based asset pricing model than National Income and Product Accounts (NIPA) consumption expenditure: Unlike garbage, NIPA consumption is filtered to mitigate measurement error. I apply a structural model of the filtering process, which allows to revoke the filter inherent in NIPA consumption. "Unfiltered NIPA consumption" performs well in explaining the equity premium and is priced in the cross-section of stock returns. I discuss the implied properties of true consumption (i.e., without measurement error and filtering) and quantify implications for habit and long-run risk models.

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