

COLLOQUIUM

Department of Statistics and Probability
Michigan State University

Kun Ho Kim

**Department of Economics
Michigan State University**

Time-Varying Risk Aversion

Tuesday, March 30, 2010

A405 Wells Hall

10:20 a.m. - 11:10 a.m.

Refreshments: 10:00 a.m.

Abstract

We model time-varying risk aversion in the consumption-based capital asset pricing model (C-CAPM). Based on the Epstein-Zin-Weil (Epstein & Zin, 1989, 1991; Weil, 1989) recursive utility, we derive the Euler equation with time-varying risk aversion parameter. The proxy variable method is utilized to replace the unobserved return to aggregate wealth in the Euler equation. The estimation of the preference parameter is carried out based on the two-stage local linear regression method. Given the estimates, we construct the simultaneous confidence band (SCB) to test the uniform constancy of the risk aversion parameter. The empirical findings strongly support time variation and counter-cyclical of the parameter under the proxy variable approach.

To request an interpreter or other accommodations for people with disabilities, please call the Department of Statistics and Probability at 517-355-9589.