

Accepted Manuscript

Maximum likelihood estimation of the equity premium

Efstathios Avdis, Jessica A. Wachter

PII: S0304-405X(17)30120-4
DOI: [10.1016/j.jfineco.2017.06.003](https://doi.org/10.1016/j.jfineco.2017.06.003)
Reference: FINEC 2779

To appear in: *Journal of Financial Economics*

Received date: 21 October 2015
Revised date: 4 August 2016
Accepted date: 2 September 2016

Please cite this article as: Efstathios Avdis, Jessica A. Wachter, Maximum likelihood estimation of the equity premium, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.06.003](https://doi.org/10.1016/j.jfineco.2017.06.003)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Maximum likelihood estimation of the equity premium *

Efstathios Avdis Jessica A. Wachter
University of Alberta University of Pennsylvania
and NBER

May 29, 2017

Abstract

The equity premium — the expected return on the aggregate stock market less the government bill rate — is of central importance to the portfolio allocation of individuals, to the investment decisions of firms, and to model calibration and testing. This quantity is usually estimated from the sample average excess return. We propose an alternative estimator, based on maximum likelihood, that takes into account information contained in dividends and prices. Applied to the postwar sample, our method leads to an economically significant reduction from 6.4% to 5.1%. Simulation results show that our method produces more reliable estimates under a wide range of specifications.

* Avdis: avdis@ualberta.ca; Wachter: jwachter@wharton.upenn.edu. We are grateful to Kenneth Ahern, John Campbell, John Cochrane, Roberto Gomez Cram, Frank Diebold, Greg Duffee, Ian Dew-Becker, Adlai Fisher, Robert Hall, Soohun Kim, Ralph Koijen, Alex Maynard, Ilaria Piatti, Jonathan Wright, Motohiro Yogo, seminar participants at the University of Alberta, the University of Rochester, the Wharton School, the AFA annual meeting, the NBER Forecasting & Empirical Methods Workshop, the SFS Cavalcade, the SoFiE Conference, the Northern Finance Association meetings and the EFA Conference, and an anonymous referee for very helpful comments. We thank Marco Grotteria for excellent research assistance.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات