



Cyprus University of Technology
Department of Commerce, Finance and Shipping

**An Axiomatic and Data Driven View on the
EPK Paradox**

by

Wolfgang K. Härdle

Center for Applied Statistics and Economics, Ladislaus von
Bortkiewicz Chair of Statistics, School of Business and
Economics, Humboldt-Universität zu Berlin

Abstract

Supported by several recent investigations the empirical pricing kernel (EPK) paradox might be considered as a stylized fact. Some authors suggest that this paradox might be caused by regime switching in financial markets. Based on an economic model with state dependent utilities for the financial investors we want to emphasize a microeconomic view that succeeds in explaining the paradox via state dependent preferences. We shall also develop and investigate calibration problems in terms of data fits for basic values of the pricing kernel.

*** Joint work with Maria Grith & Volker Krätschmer.**