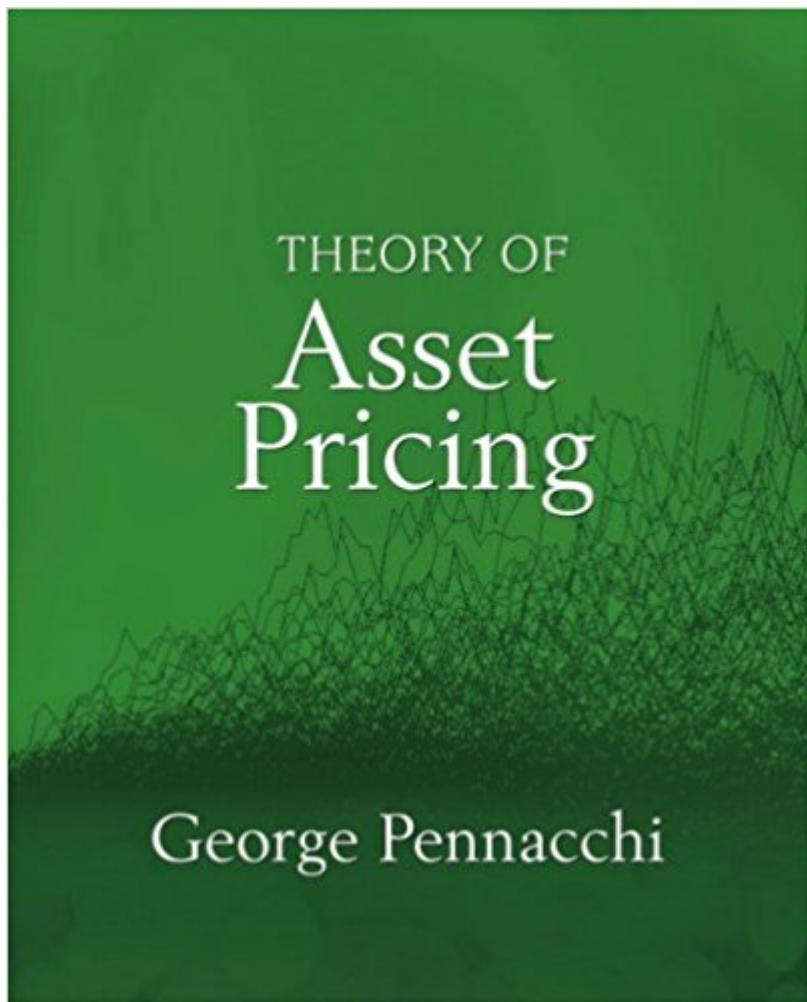


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Theory Of Asset Pricing



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Theory of Asset Pricing unifies the central tenets and techniques of asset valuation into a single, comprehensive resource that is ideal for the first PhD course in asset pricing. Single-Period Portfolio Choice and Asset Pricing: Expected Utility and Risk Aversion; Mean-Variance Analysis; CAPM, Arbitrage, and Linear Factor Models; Consumption-Savings and State Pricing; Multiperiod Consumption, Portfolio Choice, and Asset Pricing: A Multiperiod Discrete Time Model of Consumption; Multiperiod Market Equilibrium; Contingent Claims Pricing: Basics of Derivative Pricing; Essentials of Diffusion Processes and Itô's Lemma; Dynamic Hedging and PDE Valuation; Arbitrage, Martingales, Pricing Kernels; Mixing Diffusion and Jump Processes; Asset Pricing in Continuous Time: Continuous-Time Consumption and Portfolio Choice; Equilibrium Asset Returns; Time-Inseparable Utility; Additional Topics in Asset Pricing: Behavioral Finance and Asset Pricing; Asset Pricing with Differential Information; Models of the Term Structure of Interest Rates; Models of Default Risk. MESSAGE: For all readers interested in asset valuation.

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George G. Pennacchi is a professor of finance and a co-director of the Office for Banking Research at the University of Illinois at Urbana-Champaign. He is also a Research Associate at the Federal Reserve Bank of Cleveland and the Program Coordinator for Deposit Insurance at the Federal Deposit Insurance Corporation's Center for Financial Research. His research focuses on financial intermediaries and the valuation of fixed-income securities and government guarantees. Currently, he is an editor of the Journal of Financial Intermediation and an associate editor of the Journal of Banking and Finance, the Journal of Financial and Quantitative Analysis, the Journal of Financial Services Research, and the Journal of Money, Credit and Banking. Previously, he was an associate editor for the Journal of Finance, the Review of Financial Studies, and Management Science, and a co-editor of Advances in Futures and Options Research. His consulting experience includes work for the U.S. Office of Management and Budget, the World Bank, and the International Monetary Fund. He has been a visiting professor at Università Bocconi in Milan, Italy, and was a member of the finance faculty at the Wharton School of the University of Pennsylvania. Mr. Pennacchi received a Sc.B. degree in applied mathematics from Brown University in 1977 and a Ph.D. in economics from the Massachusetts Institute of Technology in 1984.

Introductory approach to asset pricing theory presented for various levels of students. Provides a good template for teaching Investments Ph.D. or M.S. theory course.

good

I spent a semester reading this book in detail and I must say it is really good. That's because it strikes a perfect balance between mathematical rigor and easiness of reading. There are many other financial economics texts that cover similar or the same topics but I think none of them are as

readable as this one. Pennacchi does a great job at presenting the material in a very logical and coherent manner. There are no conceptual jumps, you will never ask yourself "Where did this come from?" and all the math required to understand the book is explained in detail. The author starts in the first chapter with the basic axioms that preferences need to satisfy and by gradually presenting the required mathematical tools and economic concepts he talks about dynamic asset pricing and other advanced concepts in the later chapters. The range of topics covered is broad and at the end of every chapter there are some really good exercises. To sum up, I love this book because there are no conceptual gaps and you are never left guessing. I have also used Cochrane's and Duffie's books and I think Pennacchi's book is much better.

The book makes a good job on updating Ingersoll's book, *The Theory of Financial Decision-Making*. Also it explains hard finance in an easy way. Under that perspective, the book is really good. However, it has some pitfalls the reader should be aware of: 1. The Math in the book is really not demanding. So it is appropriate for an MBA or an advanced undergrad. course in finance. As such, it should be a companion book in any PhD course, instead of the main reference. 2. Since the Math is not demanding, the book overpass many concepts that might be useful to know in the future. Consequently, I do not think the book is enough for developing research in the field. It is not bad, if you do not intend to make research in the field but you are only curious about finance. 3. On the other hand, it is fair to say that it is enough to let you in advanced theoretical papers. At least, studying the book gives some intuition you'll need to follow more mathematical demanding articles. 4. The notation is not that much usual and there is sometimes some confusion, but those are minor mistakes that should be corrected in future editions. 5. I'm still waiting for a book that balances equally well theoretical concepts in finance with rigorous Math. To be concrete, I do not think the treatment given in the book on Stochastic Integrals is appropriate for a PhD student in economics or finance, meaning it should be more rigorous. The problem of not being rigorous is that it makes you believe finance is easy, and that's not true. The second problem is that it produces a hollow in the knowledge that beginners often do not know. The conclusion is that the author aims a huge audience for his book and he is successful, no doubt. But it is true the author does not intend to be deep either. That's a fair choice, but the reader should be aware of it in advance.

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