

## Errata

1. Page 47, third formula from the top:

Add parentheses  
around D/E

$$Er_L^e = Er_U^e + (1 - \tau)(D/E)(Er_U^e - r_f),$$

2. Page 125, equation (5.6):

The FOC should read

$$U'(Y_0 - s) = \delta E(U'(s\tilde{R})\tilde{R})$$

(Brackets should match  
– not a curly brace at  
end)

That is, the right-most  $\tilde{R}$  lies within the domain of the expectations operator.

3. Page 128, eight lines from the bottom:

Replace  $\bar{Y}$  with  $\tilde{Y}$

4. Page 152, Box 6.1, final line:

The phrase to the right of the comma should read

... , where  $\sigma_{\tilde{F}^1, \dots, \tilde{F}^J}^2$  denotes the aggregate factor risk.

Add the word “the”

Also, 4 lines below the Box 6.1, the first equality should read:

$$\ln(1 + \tilde{r}_p) = \ln(1 + w_1\tilde{r}_1 + \dots + w_N\tilde{r}_N) \neq \dots$$

Should be an N, not a 1

5. Page 153:

The two formulae under Case 1 should read:

Subscript is P, not R

$$\sigma_P = w_1\sigma_1 + (1 - w_1)\sigma_2.$$

Subscript is 1, not 2

$$\mu_P = \mu_1 + \frac{\mu_2 - \mu_1}{\sigma_2 - \sigma_1}(\sigma_P - \sigma_1),$$

Subscripts are P, not R

6. Page 212, the second equation under (8.4) should read:

$$\sigma_M = \sum_{j=1}^J w_j (\rho_{jM} \sigma_j)$$

j, not M

7. Page 215, line 11:

The equation in the text should read

Tilde, not a straight bar

$$\tilde{r}_{j,t+1} = (\tilde{C}F_{j,t+1} - p_{j,t}) / p_{j,t}$$

8. Page 216, 2<sup>nd</sup> equation from the top of the page:

This subscript is different (and no superscript)

$$E\left(\frac{\tilde{C}F_{j,t+1}}{p_{j,t}} - 1\right) = r_f + \frac{1}{p_{j,t}} \text{cov}(\tilde{C}F_{j,t+1}, \tilde{r}_M) \left[\frac{E(\tilde{r}_M) - r_f}{\sigma_M^2}\right].$$

9. Page 216, fourth equation from the top:

The pricing expression could also read:

$$p_{j,m} = \frac{E(\tilde{C}F_{j,t+1}) - \rho_{j,m} \sigma_j \left[ \frac{E(\tilde{r}_M) - r_f}{\sigma_m} \right]}{1 + r_f}$$

Several changes – also, new material below.

where  $\sigma_j$  denotes  $SD(\tilde{C}F_{j,t}, \tilde{r}_m)$  and

$\rho_{j,m}$  denotes  $\text{corr}(\tilde{C}F_{j,t}, \tilde{r}_m)$ .

Alternatively, since  $\beta_j = \frac{\text{cov}\left(\frac{\tilde{C}F_{j,t+1}}{p_{j,t}}, \tilde{r}_m\right)}{\sigma_m^2}$ , then

$$\beta_j = \frac{1}{p_{j,t}} \frac{\text{cov}(\tilde{C}F_{j,t+1}, \tilde{r}_m)}{\sigma_m^2}$$

Thus,

$$\text{cov}(\tilde{C}F_{j,t+1}, \tilde{r}_m) = \beta_j p_{j,t} \sigma_m^2$$

With this substitution, the fourth equation is correct, but defines the price in terms of itself.

In this case, isolating  $p_{j,t}$  gives:

$$p_{j,t} = \frac{E(\tilde{C}F_{j,t+1})}{1 + r_f} - \frac{p_{j,t} \beta_j [E(\tilde{r}_m) - r_f]}{1 + r_f}$$

$$p_{j,t} \left( 1 + \frac{\beta_j [E(\tilde{r}_m) - r_f]}{1 + r_f} \right) = \frac{E(\tilde{C}F_{j,t+1})}{1 + r_f}$$

$$p_{j,t} \left( \frac{1 + r_f + \beta_j [E(\tilde{r}_m) - r_f]}{1 + r_f} \right) = \frac{E(\tilde{C}F_{j,t+1})}{1 + r_f}$$

$$p_{j,t} = \frac{E(C\tilde{F}_{j,t+1})}{1+r_f + \beta_j [E(r_m + r_f)]}$$

Which is our old familiar formula of page 215.

10. Page 223, 2<sup>nd</sup> line of the Proof of Proposition 8.3

add the 1

and  $\alpha_i, i = 1, \dots, N$

11. Page 223, line 11:

The formula should read

$$E(\tilde{r}) = \sum_{i=1}^N \alpha_i E(\tilde{r}_i).$$

Tilde, not a straight bar

12. Page 223, three lines from the bottom: Add parentheses around A/C

$$\sum_{i=1}^N \alpha_i E(\tilde{r}_i) \geq \sum_{i=1}^N \alpha_i \left(\frac{A}{C}\right) = \frac{A}{C}$$

13. Page 225, 2<sup>nd</sup> line from the top:

$$E(\tilde{r}_{Z\tilde{C}(p)}) < \frac{A}{C}$$

Add tilde over the r

14. Page 233, line 18:

The sentence should read:

... is the average of the  $\sigma_{\varepsilon_{j,t-1}}$

Epsilon, not e

15. Page 233, 2<sup>nd</sup> line of final paragraph:

Replace  $\hat{\gamma}_2$  with  $\bar{\gamma}_2$

16. Page 241, the 2<sup>nd</sup> line of formula

Should be  $\sigma$  not  $\alpha$

$$\sigma_p^2 = \alpha^2 \sigma_M^2 + (1 - \alpha)^2 \sigma_j^2 + 2\alpha(1 - \alpha)\sigma_{jM}$$

17. Page 276, agent problem description two thirds of way down the page; the first constraint should read:

$$c_t + q_t^e z_{t+1} \leq z_t Y_t + q_t^e z_t$$

Remove the +1

18. Page 280, formula in 3<sup>rd</sup> line from the top:

There are too many parentheses; should read:

$$\text{cov}_t \left( U_1(\tilde{c}_{t+1}) / U_1(c_t), \tilde{r}_{j,t+1} \right)$$

19. Page 282, line 15:

Replace  $s'$  with  $s'$  (prime)

20. Page 283, line 8:

Replace the word “bound” with “bond”

21. Page 294, 3 lines up from the bottom:

Replace the word “bound with “bond”

22. Page 294, Second formula up from the bottom:

Slightly more consistent notation would be:

$$\frac{\sigma_m}{E\tilde{m}} > \frac{|E\tilde{R}_M - Er_f|}{\sigma_{r_M-r_f}} = \frac{0.062}{0.167} = 0.37.$$

This expression is  
changed

23. Page 297, second line of text of Section 10.8.1

The reference to Eq. (10.9) should be to Eq. (10.11)

24. Page 301, 12 lines from the bottom

“Barrow” should read “Barro” (as other examples on page)

25. Page 316: Weitzman quote at the bottom of the page, third line:

.... shows a rigorous sense in which.... [not “series”]

26. Page 411, 7 lines from the bottom:

$$q(\theta_0, \theta_t(s)) / \pi(\theta_0, \theta_t(s)).$$

I.e., add this symbol to show the statement is a fraction

27. Page 423, second equation from the bottom.

The right hand side should read:

$$= (b_{j1}\beta_{P_1} + b_{j2}\beta_{P_2})(\bar{r}_M - r_f)$$

*b<sub>j</sub>* , not *β<sub>j</sub>*

28. Page 424, second line under point i.

$$\tilde{\mathbf{f}} = [\tilde{f}^1, \tilde{f}^2, \tilde{f}^3, \dots, \tilde{f}^K]$$

This **f** should be bold

29. Page 424, second line under point ii.

$$E\tilde{\varepsilon}_i\tilde{f} = 0$$



This  $f$  should be bold

30. Page 439, second equation

$$\sum_i^N w_i \beta_i = 0 = \mathbf{w}^T \cdot \beta.$$



$w$  should be bold

31. Page 450, 11 lines from the top:

Replace  $\tilde{w} = e\tilde{y}$  with  $\tilde{w} = e^{\tilde{y}}$  [same as in two lines down]

32. Page 467. Formula (15.52) is not correct.

From Mehra and Sah (2002)

$$q_t = Y_t \frac{\delta e^{(1-\gamma)(\mu-(1/2)\gamma\sigma^2)}}{1 - \delta e^{(1-\gamma)(\mu-(1/2)\gamma\sigma^2)}}$$



delta, not beta



minus sign, not plus;  
delta, not beta



33. Page 479, equation 16.6

The left-hand side of the equation should read

$$\frac{Y_{t+1}}{Y_t}$$