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Dynamic Asset Pricing Theory, Third Edition.



Synopsis

This is a thoroughly updated edition of Dynamic Asset Pricing Theory, the standard text for doctoral students and researchers on the theory of asset pricing and portfolio selection in multiperiod settings under uncertainty. The asset pricing results are based on the three increasingly restrictive assumptions: absence of arbitrage, single-agent optimality, and equilibrium. These results are unified with two key concepts, state prices and martingales. Technicalities are given relatively little emphasis, so as to draw connections between these concepts and to make plain the similarities between discrete and continuous-time models. Readers will be particularly intrigued by this latest edition's most significant new feature: a chapter on corporate securities that offers alternative approaches to the valuation of corporate debt. Also, while much of the continuous-time portion of the theory is based on Brownian motion, this third edition introduces jumps--for example, those associated with Poisson arrivals--in order to accommodate surprise events such as bond defaults. Applications include term-structure models, derivative valuation, and hedging methods. Numerical methods covered include Monte Carlo simulation and finite-difference solutions for partial differential equations. Each chapter provides extensive problem exercises and notes to the literature. A system of appendixes reviews the necessary mathematical concepts. And references have been updated throughout. With this new edition, Dynamic Asset Pricing Theory remains at the head of the field.

Book Information

Series: Princeton Series in Finance

Hardcover: 472 pages

Publisher: Princeton University Press; Third edition (November 1, 2001)

Language: English

ISBN-10: 069109022X

ISBN-13: 978-0691090221

Product Dimensions: 6.3 x 1.4 x 9.4 inches

Shipping Weight: 1.8 pounds (View shipping rates and policies)

Average Customer Review: 3.3 out of 5 starsÂ See all reviewsÂ (9 customer reviews)

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Customer Reviews

This book provides the most elegant and coherent synthesis of finance theory, in a complete

markets and frictionless settings. For the reader interested in the theoretical foundations of modern financial models, this book has three main advantages over many of its competitors:- It clearly shows the link between modern finance theory and the 40-year old Arrow-Debreu model. As this book will make clear, financial assets can be viewed as "bundles" of Arrow-Debreu contingent goods, and pricing kernels are simply extensions of Arrow-Debreu contingent state prices.- It bridges the gap between arbitrage models on one hand, and models based on consumption, optimization/dynamic programming and general equilibrium on the other hand. Absence of arbitrage guarantees the existence of a stochastic discount factor, or pricing kernel. Optimality implies that the stochastic discount factor must be equal to the investors' intertemporal marginal rate of substitution.- It provides a unified treatment of discrete-time and continuous-time models. Many finance textbooks focus on the mathematic tools and emphasize the difference between continuous-time and discrete-time tools--usually at the expense of the economics underlying both types of models. In contrast Duffie's book emphasizes the conceptual unity between continuous-time and discrete-time asset pricing. This book was written more for students and academics than for practitioners. It is not a reference or a recipe book for traders and programmers. Several chapters are devoted to general-equilibrium models that practitioners are not likely to find useful. However, the essentials of derivative asset pricing and the term structure are also covered.

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