

UC SANTA BARBARA

THE Current

October 13, 2005

Carmen Earle

Economists Will Meet at UC Santa Barbara to Discuss 'The Equity Premium' on 20th Anniversary of Groundbreaking Paper

The Department of Economics and the Laboratory for Aggregate Economics and Finance at the University of California, Santa Barbara are co-sponsoring a conference later this month to celebrate the 20th anniversary of the publication of "The Equity Premium: A Puzzle."

The invitation-only event will bring about two dozen leading economists from across the country to UC Santa Barbara on October 28 and 29, when they will join UCSB economists and graduate students in panel discussions and presentations on the groundbreaking paper on the equity premium.

This seminal paper by Professors Rajnish Mehra of UC Santa Barbara and Edward Prescott of Arizona State University, a co-winner of the 2004 Nobel Prize in Economic Sciences, is one of the best-known papers in financial economics and has influenced the practice of portfolio management worldwide.

The puzzle concerns the inability of standard economic models to replicate the magnitude of the average amount by which a well-diversified portfolio of stocks pays returns in excess of the risk-free rate: the equity premium.

The conclusions reached by the authors challenged the accepted paradigms of financial economics and have set the research agenda in this area for the past two decades.

Finding a cogent solution to the equity-premium puzzle remains an open question for financial theorists.

The Laboratory for Aggregate Economics and Finance is a new research center at UC Santa Barbara directed by Professor Finn Kydland, who shared the 2004 Nobel Prize in Economics with Prescott. The laboratory's focus is on the quantitative analysis of macroeconomics and finance. Kydland will be among the participants in the upcoming conference.

More information about the meeting will be available on the Department of Economics Web site at <http://www.econ.ucsb.edu/cgi-bin/newspage.cgi>.

Related Links

[Department of Economics Web site](http://www.econ.ucsb.edu/cgi-bin/newspage.cgi)

About UC Santa Barbara

The University of California, Santa Barbara is a leading research institution that also provides a comprehensive liberal arts learning experience. Our academic community of faculty, students, and staff is characterized by a culture of interdisciplinary collaboration that is responsive to the needs of our multicultural and global society. All of this takes place within a living and learning environment like no other, as we draw inspiration from the beauty and resources of our extraordinary location at the edge of the Pacific Ocean.