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Merton, Robert C.

An intertemporal capital asset pricing model. (English) Zbl 0283.90003

Econometrica 41, 867-887 (1973).

Summary: An intertemporal model for the capital market is deduced from the portfolio selection behavior by an arbitrary number of investors who act so as to maximize the expected utility of lifetime consumption and who can trade continuously in time. Explicit demand functions for assets are derived, and it is shown that, unlike the one-period model, current demands are affected by the possibility of uncertain changes in future investment opportunities. After aggregating demands and requiring market clearing, the equilibrium relationships among expected returns are derived, and contrary to the classical capital asset pricing model, expected returns on risky assets may differ from the riskless rate even when they have no systematic or market risk.

MSC:

91G10 Portfolio theory
91B25 Asset pricing models (MSC2010)

Cited in **6** Reviews
Cited in **226** Documents

Full Text: DOI

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