

An Axiomatic and Data Driven View on the EPK Paradox

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Supported by several recent investigations, the empirical pricing kernel (EPK) paradox might be considered as a stylized fact. Some authors suggest that this paradox might be caused by regime switching in financial markets. Based on an economic model with state dependent utilities and reference points we want to emphasize a microeconomic view that succeeds in explaining the paradox. We shall also develop and investigate an inverse problem in terms of data fit for basic values of the pricing kernel.