[english,12pt]amsart geometry,amsmath,graphicx,babel

verbose,letterpaper,tmargin=1in,bmargin=1in,lmargin=1.125in,rmargin=1.125in,headheight=0.5in,footskip=

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BUSI 521: Asset Pricing Theory

ECON 505: Financial Economics I

Spring 2022

As usual, collaboration on this assignment is not permitted.

1. What is the equilibrium in the Grossman-Stiglitz model when informed investors are risk averse and uninformed investor are risk neutral?

2.

3. Do Exercise 8.1, parts (b)–(e). The answer to part (a) is as follows. Under the given assumptions, the return on the risky asset from t to $t+1$ is $R_h := (k+1)\lambda_h/k$ when $D_{t+1}/D_t = \lambda_h$ and the return is $R_\ell := (k+1)\lambda_\ell/k$ when $D_{t+1}/D_t = \lambda_\ell$. The necessary and sufficient condition for the absence of arbitrage opportunities is $R_h > R_f > R_\ell$.