

Advanced Asset Pricing: Homework 4

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FIGURE 1: This figure shows the impulse response function of the log of the ratio of the Pareto weights, $\log(S_t)$, and the world consumption share of the home country, SWC_t . Shocks to the home country good endowment, x , materialize at time 1. Domestic and foreign shocks are cross-country correlated in the model. In this figure, we focus on their orthogonal component and use standard deviations $\sigma\sqrt{1+\rho_{xy}^2}$ and $\sigma_x\sqrt{1+\rho_{12}^2}$ for short- and long-run news, respectively. All parameters are calibrated as in Colacito & Croce (2013).

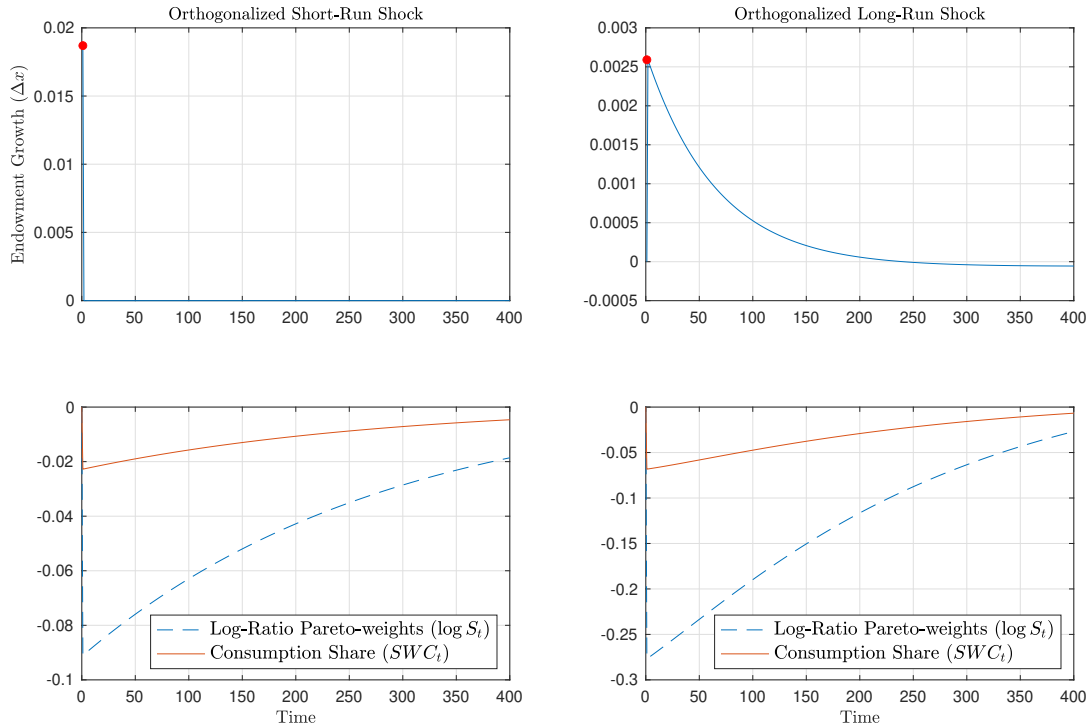


FIGURE 2: Impulse response functions when IES=1.5. This figure shows the impulse response functions of Pareto weights, consumption, exchange rate, and stochastic discount factors to a shock to the home endowment for both the home country (solid line) and the foreign country (dashed line). All parameters are calibrated as in Colacito and Croce (2013). Shocks materialize only in the home country, and only at time 1. Shocks are not orthogonalized; we consider a positive σ shock in the short-run, and a positive σ_x shock for the long-run.

