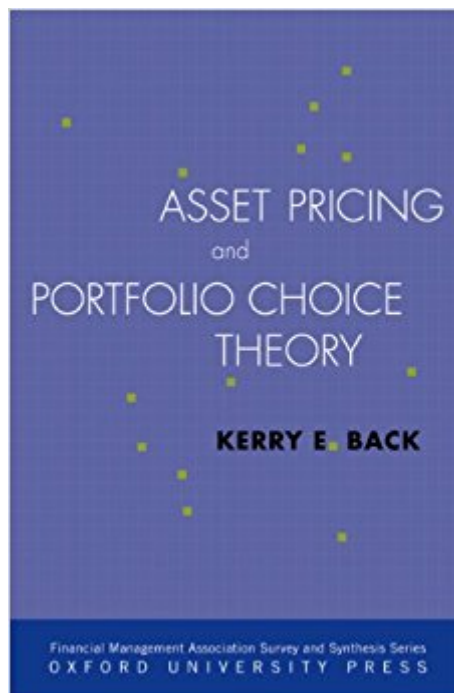




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# Asset Pricing And Portfolio Choice Theory (Financial Management Association Survey And Synthesis)



## Synopsis

In *Asset Pricing and Portfolio Choice Theory*, Kerry E. Back at last offers what is at once a welcoming introduction to and a comprehensive overview of asset pricing. Useful as a textbook for graduate students in finance, with extensive exercises and a solutions manual available for professors, the book will also serve as an essential reference for scholars and professionals, as it includes detailed proofs and calculations as section appendices. Topics covered include the classical results on single-period, discrete-time, and continuous-time models, as well as various proposed explanations for the equity premium and risk-free rate puzzles and chapters on heterogeneous beliefs, asymmetric information, non-expected utility preferences, and production models. The book includes numerous exercises designed to provide practice with the concepts and to introduce additional results. Each chapter concludes with a notes and references section that supplies pathways to additional developments in the field.

## Book Information

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## Customer Reviews

Kerry Back's textbook on asset pricing elegantly covers two PhD. level courses in asset pricing

theory. It contains portfolio choice theory, equilibrium and derivative pricing in both discrete and continuous time models. Back never loses focus on developing intuition drawing analogies between discrete time and continuous time models while keeping the coverage rigorous and complete. Only the most pedantic theorist would ask for a more technical coverage - this book makes Duffie's treatment of this beautiful subject seem intentionally obtuse. The final chapters covering alternative preferences (habit, long-run risk, non-vNM), while quite current with the literature, feel somewhat rushed. Even still, the chapters on asymmetric information and production models are second to none. Note: This book would not be especially useful for a financial engineering student since it does not cover numerical methods or complex pricing models for derivatives or the term structure of interest rates.

Great book - rigorously presents all the important concepts of asset pricing. However, there's very little explanation, the math is brief (jumps straight to the conclusion), and overall highly unintuitive. A horribly dense read. Proceed with caution unless you are pursuing graduate (PhD) level finance.

very classical book~

Required book for Finance PhD program in United States.

I am in the EDHEC PhD program, and we are using this book, instead of Merton's ConTimeFin, or Cochrane for our course Continuous Time Financial Economics. Kerry Back's clarity is the main utility here. He does spend a \*lot\* of time on the binomial model (discrete time) before extending it to ConTime, but this grounding helps in the intuition. Probably the best pedagogic layout of Ito's formula I've ever encountered, and this thoroughly covers Black Scholes, and asset pricing through Healey Geman's final extension. Back's work benefits from all previous work in computational and continuous time finance in that more (not all) of the mathematical notation is standardized. However, some of his choices for superscripts and subscripts strike you as odd, particularly if you've come from an MSF that emphasizes, say, John Hull's notation (most), or an MSFE (Carnegie Mellon) that emphasizes Merton's notation. Those coming to a PhD in Finance from Engineering or pure or applied Math will face a new, but slope familiar curve with comprehending the notation. So the admonition in Financial Mathematics that you really have to pay attention to the author's sometimes idiosyncratic choices for mathematical notation remains, but Kerry Back has (to his credit) extensively used that which is agreed upon or in general consensus in this volume, so it is in fact

easier to read (in relationship to other books) than say, Merton or Oksendal. And so here a word on difficulty. This is not Oksendal. This is not Shreve and Karatzas. Those would be more appropriate for a PhD in Financial Mathematics, not a PhD in Finance. So why four stars instead of five? Typos, really. Kerr Back has the errata sheet on his website, but still...for a premium priced book the copy editing was supposed to be better than this. It isn't HORRIBLE (like, completely unedited, like some publishers ( "Wiley" )) but you'd expect better from Oxford University Press. And the errata sheet doesn't correct just minor stuff, some key items can throw the first-time-in-the-subject-reader way off on a useless tangent, wasting time and creating initial confusion. So get that errata sheet (the publisher should actually include it with the volume...my copy did not have it). So in short, this is a great, clear, readable, and understandable Finance PhD level treatment of asset pricing that is a good choice for a variety of courses on continuous time asset pricing and financial economics. With the errata sheet and your hand made corrections, it is an excellent book. It is too light for a Financial Mathematics PhD, but a solid basic or supplemental text.

Having gone through four financial economics classes at the PhD level and numerous other books (Cochrane, Ingersoll, Duffie, Pennachhi), I have found this to be the best book. First, it is not cryptic. You understand what the flow is, where we came from and where we are going next, and why are we going there. This may sound simple and obvious, but it is not, especially when you follow the other books. Chapters 1-11 go through the introductory/foundational concepts such as RRA, SDF, Welfare theorems, Arrow-Debreu securities, Arbitrage, Euler equations, Dynamic programming, Bellman Equations, Representative agent, complete and incomplete markets, habit models, equity premium puzzle etc., in detail. Chapters 12-22 go through continuous time concepts, Ito's process, Radon-Nikodym derivatives, Beta pricing, HJ bounds, Change of numeraire, CAPM, ICAPM, Option pricing models without solving PDEs, Deep dive into option pricing using SDF and change of measure. The whole approach focuses on SDF related math. All in all, it is a great book because another eloquent professor (who knew the old books and this book, and took pain to relearn the old techniques) taught this subject. If someone else taught it, I don't know if I would have appreciated this book to the same extent.

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