

Relative Existence for Recursive Utility*

Walter Pohl
Department of Finance
NHH Norwegian School of Economics

Karl Schmedders
IMD Lausanne and
University of Zurich

Ole Wilms
Department of Finance
Tilburg University

May 21, 2019

Abstract

Existence theorems for growth economies and sophisticated recursive preferences have proven difficult to come by. We offer a simple proof technique that covers many models of interest, such as the Bansal-Yaron long-run risk model, models with rare disasters, models with stochastic volatility and jumps and models with smooth ambiguity aversion.

Keywords: Asset pricing, existences, long-run risk.

JEL codes: G11, G12.

PRELIMINARY AND INCOMPLETE

ONLY FOR SEMINAR AT

FACULTY OF BUSINESS AND ECONOMICS
UNIVERSITY OF BASEL

*We are indebted to Nicole Branger, Jarda Borovička, Ian Dew-Becker, Lars Hansen, and Kenneth Judd for helpful discussions on the subject. Some of the results in this paper circulated in an early draft of “Higher-Order Effects in Asset Pricing Models with Long-Run Risks”.