



MACROECONOMICS

Generalized Recovery

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Working paper

The Holy Grail in financial economics is to decode probabilities and risk preferences from asset prices. This decoding has been viewed as impossible until Ross (2015) provided sufficient conditions for such a recovery in a time-homogeneous Markov economy (using the Perron-Frobenius Theorem). However, Borovicka, Hansen, and Scheinkman (2015) (who also rely on Perron-Frobenius and results of Hansen and Scheinkman (2009)) have criticized this method, arguing that Ross's assumptions rule out realistic models.

This paper sheds new light on this debate, both theoretically and empirically.

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