FIN3005 – Høst 2018
Kandidat: 10024

In Question 1 (20 points), the candidate was asked to derive the risk premium for a static investment problem for which the gross return is log-normally distributed and the investor holds power expected utility preferences. This question calls for a mathematical derivation given the above assumptions. The candidate presents a great derivation of the equity premium for the prescribed preferences and probability distribution, but for the dynamic rather than the static case. This makes the answer to this question only half right.

In Question 2 (20 points), the candidate is asked to define the equity premium and explain why it can be expressed by means of a covariance; then, to define the equity premium puzzle and describe and discuss the various attempts made to explain it. Here, the candidate's response is very convincing, showing complete understanding of the relevant concepts as well as the theories advanced to explain the puzzle. Full score.

The candidate was allowed to choose between Question 3 and Question 4 (both 60 points) and chose Question 4. This question was related to the paper by Gennaioli, Shleifer, and Vishnu. However, the subquestions a, b, and c were to be answered independently of that paper. They concerned the difference between idiosyncratic and aggregate risk, how securitisation can be used to expand the opportunity for safe investments, and the systemic risks associated with securitisation. The candidate answered all these subquestions adequately. Then, subquestion d asked how the model by the above-mentioned authors can shed light on the issues mentioned. The candidate answered this part excellently as well, both reproducing the analysis by Gennaioili, Shleifer, and Vishny, and explaining it in his or her own words. Full score here as well.

Grade: A

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