Consumption, Population, and the Cross-Section of Stock Returns

Abstract:

The paper proposes a model extending the CCAPM to the consumption and population-based asset pricing model (the model is referred to as the CPCAPM) by incorporating the population factor. We investigate the empirical performance of the pricing kernel in the CPCAPM. The CPCAPM performs much better than the CCAPM in alternative ways and almost as well as the Fama and French three-factor model. We further divide the impact of the aggregate population into those of four generations on expected excess returns. The empirical results show that the CPCAPM with age groups improves the performance of the CPCAPM without age groups. The finding results from the fact that for the U. S. economy the population growth of the middle age and old-aged groups has much more explanatory power than the other age groups. Moreover, the population risk of the middle-aged increases the expected excess returns and that of the old-aged decreases the expected excess returns, which supports the life-cycle theory.

Authors:

Tzuling Lin *(Speaker)
Richard MacMinn
Larry Y. Tzeng