Durable consumption risk, stock market return and business cycle

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Abstract

Following the work of Yogo (2006), I investigate the role of durable goods in the consumption asset pricing model in the Japanese stock market. Durable consumption risk can capture the variation of size and book-to-market sorted portfolio and market-beta sorted portfolio return. The model cannot be reject by Hansen-Jagannathan distance and the over-identification test when using market-beta sorted portfolio. In addition, the durable consumption growth is closely connected to the Japanese business cycle, which explains why the model works well. My results imply that durable goods consumption risk in the limited participation model may better explain the Japanese stock market.

Keywords: Durable goods, Japanese stock market, Consumption asset pricing model

JEL classification: G11 G12 E21

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