



KU LEUVEN

## Statistics and Econometrics Seminar

Joint organization by  
ORSTAT, Faculty of Business and Economics and the Statistics Research Group,  
Faculty of Science  
Leuven Statistics Research Center

**Prof. Dr. Patrick Gagliardini**  
Faculty of Economics, University of Lugano, Switzerland

### “Time-varying risk premium in large cross-sectional equity datasets”

Thursday, May 10, 2012  
12.00–13.00h

Location: Room HOG 03.101, Naamsestraat 69, Leuven.  
Supporting research project: GOA-project 2007/04

**Abstract.** We develop an econometric methodology to infer the path of the risk premium from large unbalanced panel of individual stock returns. We estimate the time-varying risk premium implied by conditional linear asset pricing models through simple two-pass cross-sectional regressions, and show consistency and asymptotic normality under increasing cross-sectional and time series dimensions. We address consistent estimation of the asymptotic variance, and testing for the asset pricing restrictions. Our approach also delivers inference for time-varying cost of equity. The empirical illustration on over 12,500 US stock returns from January 1960 to December 2009 shows that the value risk premium is counter-cyclical. It is also larger and more volatile in recent years.