



# Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing (Princeton Series in Finance)

By Yvan Lengwiler

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## Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing (Princeton Series in Finance) By Yvan Lengwiler

This textbook takes the reader from the level of microeconomics principles through to modern asset pricing theory. Yvan Lengwiler elegantly links together issues that have in the past been the territory of general economic theorists on the one hand, and financial economists on the other.

In a sequence of carefully explained steps, the reader learns how the first welfare theorem is used in asset pricing theory. The book then moves on to explore Radner economies and von Neumann-Morgenstern decision theory, and this section culminates in Wilson's mutuality principle and the consumption-based CAPM. This is then put into a dynamic setting, and term structure models are introduced. The empirical shortcomings of the standard asset pricing models are extensively discussed, as is research from the last twenty years aimed at bringing theory in line with reality. The reader is brought up to date on the latest areas of concern, such as habit formation, the consequences of heterogeneity, demographic effects, changing tax regimes, market frictions, and the implications of prospect theory for asset pricing.

Aimed at masters or Ph.D. students specializing in financial economics, the book can also be used as a supplementary text for students of macroeconomics at this advanced level and will be of interest to finance professionals with a background in economics and mathematics. It includes problems (with solutions), and an accompanying website provides supporting material for lecturers.

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**Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing (Princeton Series in Finance) By Yvan Lengwiler Bibliography**

- Rank: #2270194 in Books
- Brand: Brand: Princeton University Press
- Published on: 2006-05-07
- Original language: English
- Number of items: 1
- Dimensions: 9.25" h x .69" w x 6.00" l, .94 pounds
- Binding: Paperback
- 304 pages

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#### Review

"*Microfoundations of Financial Economics* is a wonderful book. In less than 300 pages of highly readable text, Yvan Lengwiler covers the basics of modern asset pricing theory. Students of advanced finance will want to use this book as an effective learning tool and reference. It's going to be a permanent part of my library."--**Simon Benninga, Tel Aviv University and , Editor-in-Chief, *European Finance Review***

"This book can be a great asset for Ph.D. students that are overwhelmed by asset pricing. . . . Lengwiler [has] produced a nice addition to recent publications that bridge the gap between undergraduate and advanced Ph.D. textbooks."--***EconomicDynamics Newsletter***

#### From the Inside Flap

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"A tour de force. Yvan Lengwiler's book provides a valuable structure around an area that professors struggle to cover in an integrated way."--Elroy Dimson, London Business School

#### From the Back Cover

"A tour de force. Yvan Lengwiler's book provides a valuable structure around an area that professors struggle to cover in an integrated way."--**Elroy Dimson, London Business School, co-author of *Triumph of the Optimists***

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