

THE EFFECT OF ASYMMETRIC INFORMATION AND TRANSACTION COSTS ON ASSET PRICING : THEORY AND TESTS

Makram Bellalah^α Soïane Aboura^γ

^z

This paper presents a capital asset pricing model in the presence of asymmetric information and transaction costs. The model is a generalized version of Merton's (1987) model and Black's (1974) model. Empirical tests show a negative relation between the expected rate of return and the shadow costs of incomplete information. The results in this paper have the potential to explain the home bias equity in a domestic and an international context.

^αCEREG University of Paris Dauphine And ESSEC School of Management, bellalah@essec.fr

^γESSEC School of Management, aboura@essec.fr

^zThe authors would like to thank Roland Portait, Richard Roll when he was in international finance conference in Tunisia (2001), Yves Simon, Mondher Bellalah , Jacques Hamon, Fabrice Riva, for helpfull comments.