

Evaluating a nonlinear asset pricing model on international data

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Abstract

The paper analyses the ability of a nonlinear asset pricing model suggested by Dittmar (2002) to explain the returns on international value and growth portfolios. For comparison we use some competing pricing models; such as the ICAPM, the exchange rate risk augmented ICAPM and the international two-factor model proposed by Fama and French (1998). All models are evaluated both unconditionally and conditionally. The models are evaluated by applying the Hansen and Jagannathan distance measure. We also employ several alternative measures to ensure a robust comparison of the models. We find support for the model of Dittmar (2002). Evaluated conditionally, this model successfully passes all the different diagnostic tests performed in the analysis.

JEL Classification: G12, G15

Keywords: nonlinear asset pricing, international markets, Hansen and Jagannathan distance, value effect.

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