# Article information:

By Force of Habit: A Consumption‐Based Explanation of Aggregate Stock Market Behavior on JSTOR
<https://www.jstor.org/stable/10.1086/250059?saml_data=eyJzYW1sVG9rZW4iOiJjNDQ0ZjU0ZC00ZmU3LTQzNDktYTk0Yy1hOTAwM2RmYTJmOGEiLCJlbWFpbCI6ImsyMTE0NjgyN0BrY2wuYWMudWsiLCJpbnN0aXR1dGlvbklkcyI6WyI2YmM1NDQ0OS1iOWFkLTQwMDAtOTc0ZC1mYjc3ZThkNDUxOTUiXX0>

# Article summary:

1. A consumption-based model can explain various dynamic asset pricing phenomena, including the variation of stock prices, predictability of excess stock returns, and variation of stock market volatility.

2. The model explains the equity premium puzzles despite a low and constant risk-free rate by adding a slow-moving external habit to the standard power utility function.

3. The model posits a fundamentally novel description of risk premia, where investors fear stocks primarily because they do poorly in recessions unrelated to the risks of long-run average consumption growth.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article "By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior" presents a consumption-based model that explains various dynamic asset pricing phenomena. The authors claim that their model can explain the procyclical variation of stock prices, the long-horizon predictability of excess stock returns, and the countercyclical variation of stock market volatility. However, the article has some potential biases and missing points of consideration.

Firstly, the authors assume that investors fear stocks primarily because they do poorly in recessions unrelated to the risks of long-run average consumption growth. This assumption may not hold true for all investors as some may have different reasons for fearing stocks. Additionally, the authors do not provide evidence to support this claim.

Secondly, the article does not explore counterarguments or present both sides equally. The authors only present their consumption-based model without discussing other possible explanations for dynamic asset pricing phenomena.

Thirdly, the article has some promotional content as it claims that their model captures much of the history of stock prices from consumption data and explains short- and long-run equity premium puzzles despite a low and constant risk-free rate. However, there is no evidence provided to support these claims.

Fourthly, while the article notes that their model is driven by an independently and identically distributed consumption growth process and adds a slow-moving external habit to the standard power utility function, it does not discuss any possible risks associated with this approach.

Finally, while the article provides insights into potential biases and sources in aggregate stock market behavior based on consumption data, it does not consider other factors such as political events or changes in regulations that could also impact stock prices.

In conclusion, while "By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior" presents an interesting consumption-based model for explaining dynamic asset pricing phenomena in aggregate stock markets based on consumption data, it has some potential biases and missing points of consideration. Therefore, readers should approach this article with caution and consider other possible explanations for dynamic asset pricing phenomena in aggregate stock markets.

# Topics for further research:

* Political events and stock market behavior
* Alternative explanations for dynamic asset pricing phenomena
* Risks associated with using consumption data to explain stock market behavior
* Investor attitudes towards stocks during recessions
* Long-run average consumption growth and stock market behavior
* Impact of changes in regulations on stock prices

# Report location:

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