

Finance view

- Key friction: financial frictions, segmentations

$$\Delta \text{price} = f(\Delta E[\text{future cash flows}], \Delta \text{risk premia})$$

small

large

- Term spread: expectations hypothesis fails
- Credit spread: default risk
risk premium predicts future econ-activity
- VIX (VSTOXX)
- “I theory”
 - risk is endogenous &
risk premium is time varying
 - MoPo recaps impaired sectors and affects risk and risk premium
 - Surprise Fed interest rate cut lowers 10 year (real) TIPS yield
Hanson-Stein (2014)

*Risk premium news
the main driver*