

Stochastic Discount Factor

- Capital goods market

- Intermediaries' SDF: $m_{o,t} = \underbrace{e^{-\rho t}}_{\text{time preference}} \underbrace{f(\eta_t)/f(\eta_o)}_{\text{agency constraint}}$

- Outside equity market

- Households' SDF: $m_{o,t}^{HH} = e^{-rt}$
 - Note that $m_{o,t} \neq m_{o,t}^{HH}$, since $\underline{\delta} > \delta$

- Derivatives market

- Volatility smirk of options
 - Index options vs. stock options