

Date of the event:

On Thursday 24th February 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before February 21st, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

***Asset Pricing Under Market
Uncertainty***

*By Professor Erik Kimbrough
Maastricht University – The Netherlands*

**Thursday 24th February 2011
From 01:00 PM to 2:00 PM**

Asset Pricing Under Market Uncertainty

By Erik Kimbrough

The **Luxembourg School of Finance**

Is pleased to invite you to the

LSF Seminar

We examine behavior in experimental asset markets when subjects trade assets with fundamental value determined by outcomes in an experimental product market. In this paper, we maintain many of the basic features of the classic experimental asset market environment of Smith, Suchanek and Williams (1988), while introducing an original process for determining the dividend. Our environment differs from previous studies in that the dividend and fundamental value are based on accrued profits in another experimental market. In particular, asset market participants observe the pricing decisions, costs, and profit of a monopolist firm, which together with the (known) total number of assets determines the dividend per asset. This process introduces dividend uncertainty since traders observe firm profits in real time and can only *forecast* future profits. Thus fundamental value is unknown (and unknowable).

The goal of this paper is to consider the effect of a “real” dividend process on price formation. Will asset prices reflect the real time profitability of the firm? How does this depend on market structure? The empirical evidence on whether movements in asset prices are justified by changes in fundamentals is mixed (Shiller 1981; LeRoy and Porter 1981; Bittlingmayer 1992). However, our experimental design allows us to directly compare asset market treatments in which traders observe firms for which the underlying fundamentals are different and known.

