Dynamic Asset Pricing Theory, Third Edition.

Synopsis

This is a thoroughly updated edition of Dynamic Asset Pricing Theory, the standard text for doctoral students and researchers on the theory of asset pricing and portfolio selection in multiperiod settings under uncertainty. The asset pricing results are based on the three increasingly restrictive assumptions: absence of arbitrage, single-agent optimality, and equilibrium. These results are unified with two key concepts, state prices and martingales. Technicalities are given relatively little emphasis, so as to draw connections between these concepts and to make plain the similarities between discrete and continuous-time models. Readers will be particularly intrigued by this latest edition’s most significant new feature: a chapter on corporate securities that offers alternative approaches to the valuation of corporate debt. Also, while much of the continuous-time portion of the theory is based on Brownian motion, this third edition introduces jumps--for example, those associated with Poisson arrivals--in order to accommodate surprise events such as bond defaults. Applications include term-structure models, derivative valuation, and hedging methods. Numerical methods covered include Monte Carlo simulation and finite-difference solutions for partial differential equations. Each chapter provides extensive problem exercises and notes to the literature. A system of appendixes reviews the necessary mathematical concepts. And references have been updated throughout. With this new edition, Dynamic Asset Pricing Theory remains at the head of the field.

Book Information

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Customer Reviews

"This is an important addition to the set of text/reference books on asset pricing theory. It will, if it

has not already, become the standard text for the second Ph.D. course in security markets. Its treatment of contingent claim valuation, in particular, is unrivaled in its breadth and coherence."--Journal of Economic Literature

Darrell Duffie is the James Irvin Miller Professor of Finance at the Graduate School of Business, Stanford University. He teaches and does research in the area of asset valuation, risk management, credit risk modeling, and fixed-income and equity markets. His other books include Security Markets: Stochastic Models and Futures Markets.

The mathematics of finance is not trivial, but neither is it really all that difficult; nevertheless, Duffie works to make you think that it is.I maintain a scale of good versus bad mathematics writing in my head, against which I calibrate books I read. This scale stretches from, at one end, the faculty of Moscow University, in particular Israel Gelfand, Vladimir Arnold and Andre Kolmogorov, all of whom manage to explain to me hard things so that they seem easy, to, at the other, Darrell Duffie.

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This book is at best useful as a reference book but even that is doubtful.If you are new to the subject you will find it very hard to follow. Concepts are often defined purely in math terms with intuition given very sparsely if at all. Proofs are very terse (read incomplete) because everything "is easy to show" and annoyingly often, results are simply stated with the derivation "left as an exercise" leaving me wondering why Duffie uses precious space for those pointless remarks instead of actually explaining the material.If, on the other hand, you already know the material the book might be useful as a reference due to its tersenes. However, I don’t see why someone would bother to get used to new notation when they already know the material from somewhere else.As another reviewer already stated, math requirements are quite high: real analysis, stochastic calculus, and measure theory at least and here again I doubt that someone might find the appendices helpful if they don’t know the material already from somewhere else.Also, I agree with someone else’s comment that while finance can be tough, it is definitely not as tough as Duffie makes it to be. Of course there is always a trade-off between generality and presenting concepts in an easy way but just because something can be done with complex numbers does not mean that it has to.

This book provides the most elegant and coherent synthesis of finance theory, in a complete markets and frictionless settings.For the reader interested in the theoretical foundations of modern financial models, this book has three main advantages over many of its competitors:- It clearly shows the link between modern finance theory and the 40-year old Arrow-Debreu model. As this book will make clear, financial assets can be viewed as "bundles" of Arrow-Debreu contingent goods, and pricing kernels are simply extensions of Arrow-Debreu contingent state prices.- It bridges the gap between arbitrage models on one hand, and models based on consumption, optimization/dynamic programming and general equilibrium on the other hand. Absence of arbitrage guarantees the existence of a stochastic discount factor, or pricing kernel. Optimality implies that the stochastic discount factor must be equal to the investors’ intertemporal marginal rate of substitution.- It provides a unified treatment of discrete-time and continuous-time models. Many finance textbooks focus on the mathematic tools and emphasize the difference between continuous-time and discrete-time tools--usually at the expense of the economics underlying both types of models. In contrast Duffie’s book emphasizes the conceptual unity between continuous-time and discrete-time asset pricing.This book was written more for students and academics than for pratictioners. It is not a reference or a recipe book for traders and programmers.

Several chapters are devoted to general-equilibrium models that pratictioners are not likely to find useful. However, the essentials of derivative asset pricing and the term structure are also covered. The latest edition even includes a chapter on corporate finance.Finally, this book is pretty much self-contained. All the graduate-level math results used in the proofs are presented either in the main body of the book, or in appendices.

Dynamic Asset Pricing Theory, Third Edition. Modern Portfolio Theory, the Capital Asset Pricing Model, and Arbitrage Pricing Theory: A User's Guide Empirical Dynamic Asset Pricing: Model Specification and Econometric Assessment Asset Pricing and Portfolio Choice Theory (Financial Management Association Survey and Synthesis Series) Asset Pricing and Portfolio Choice Theory (Financial Management Association Survey and Synthesis) Theory of Asset Pricing Practical Pricing: Translating Pricing Theory into Sustainable Profit Improvement Third Eye: Third Eye Activation Mastery, Easy And Simple Guide To Activating Your Third Eye Within 24 Hours (Third Eye Awakening, Pineal Gland Activation, Opening the Third Eye) Asset Pricing Stochastic Calculus for Finance I: The Binomial Asset Pricing Model (Springer Finance) (v. 1) Stochastic Methods in Asset Pricing (MIT Press) Graphic Artist's Guild Handbook of Pricing and Ethical Guidelines (Graphic Artists Guild Handbook: Pricing & Ethical Guidelines) Smart Pricing: How Google, Priceline, and Leading Businesses Use Pricing Innovation for Profitabilit (paperback) The Future of Pricing: How Airline Ticket Pricing Has Inspired a Revolution Smart Pricing: How Google, Priceline, and Leading Businesses Use Pricing Innovation for Profitability Dynamic Programming and Optimal Control, Vol. II, 4th Edition: Approximate Dynamic Programming Decoding The Hidden Market Rhythm - Part 1: Dynamic Cycles: A Dynamic Approach To Identify And Trade Cycles That Influence Financial Markets (WhenToTrade) Decoding The Hidden Market Rhythm - Part 1: Dynamic Cycles: A Dynamic Approach To Identify And Trade Cycles That Influence Financial Markets (WhenToTrade) (Volume 1) Modeling Dynamic Biological Systems (Modeling Dynamic Systems) Dynamic Modeling in the Health Sciences (Modeling Dynamic Systems)