

The Equity Premium Puzzle in Switzerland

A thesis submitted to the Faculty of Economics, Business Administration and
Information Technology
of the University of Zurich

for the degree of
Bachelor of Arts

by

Ni Jiang

from China

Supervisor:	Prof. Dr. Felix Kübler
Advisor:	Ms. Quan Zhang
Date of submission:	August 17, 2015

Abstract

The equity premium puzzle has been demonstrated to be valid by analyzing the financial data from many countries, such as the USA and Norway. However the puzzle has not been evaluated with the data from the Swiss financial market. This thesis analyzes the equity premium puzzle in Switzerland.

I collect and process the key data from Swiss financial markets under the requirements for data in Mehra and Prescott (1985). The equity premium puzzle exists by using the conventional model in Mehra and Prescott (2003). I use derivative approximation method to analyze the recursive model in Epstein and Zin (1991). The equity premium puzzle is resolved under the calibration by assuming different data for the wealth portfolio. I demonstrate how the model works and conclude that solving the puzzle under the recursive model is not a coincidence under special assumptions for calibrations.

In conclusion, the recursive model offers an explanation to the equity premium puzzle and embraces the reality better than the conventional model.

KEYWORDS: the conventional model, the recursive model, derivative approximation, the equity premium puzzle