

Equilibrium Value and Profitability Premia

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Abstract

Standard production-based asset pricing models cannot simultaneously explain the value and the profitability premia, because the value and the profitability factors are highly negatively correlated. Empirically, we show that value and profitability sorted portfolios differ in the persistence of productivity. We develop a general equilibrium model and demonstrate that heterogeneity in the persistence of productivity shocks can account for the coexistence of the profitability and the value premia.

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