

# Financial Crises and Risk Premia

[Get access >](#)

Tyler Muir

*The Quarterly Journal of Economics*, Volume 132, Issue 2, May 2017, Pages 765–809, <https://doi.org/10.1093/qje/qjw045>

**Published:** 10 March 2017

## Abstract

I analyze the behavior of risk premia in financial crises, wars, and recessions in an international panel spanning over 140 years and 14 countries. I document that expected returns, or risk premia, increase substantially in financial crises, but not in the other episodes. Asset prices decline in all episodes, but the decline in financial crises is substantially larger than the decline in fundamentals so that expected returns going forward are large. However, drops in consumption and consumption volatility are fairly similar across financial crises and recessions and are largest during wars, so asset pricing models based on aggregate consumption have trouble matching these facts. Comparing crises to “deep” recessions strengthens these findings further. By disentangling financial crises from other bad macroeconomic times, the results suggest that financial crises are particularly important to understanding why risk premia vary. I discuss implications for theory more broadly and discuss both rational and behavioral models that are consistent with the facts. Theories where asset prices are related to the health of the financial sector appear particularly promising.

© The Author(s) 2017. Published by Oxford University Press, on behalf of President and Fellows of Harvard College. All rights reserved. For Permissions, please email: [journals.permissions@oup.com](mailto:journals.permissions@oup.com)

**JEL:** E44 - Financial Markets and the Macroeconomy, G01 - Financial Crises, G12 - Asset Pricing; Trading volume; Bond Interest Rates

**Issue Section:** [Article](#)

You do not currently have access to this article.

# Sign in

 [Get help with access](#)

## Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

[Register](#)

## Institutional access



Sign in through your institution



Sign in through your institution



[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

## Institutional account management

[Sign in as administrator](#)

## Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

## Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Financial Crises and Risk Premia\* - 24 Hours access

EUR €39.00

GBP £33.00

USD \$43.00

## Rental



This article is also available for rental through DeepDyve.