NEW: We have upgraded our email alerts. You can sign up using the 'Email alerts' panel available on most pages, or in your Oxford Academic personal account, where you can also manage any existing alerts.

JOURNAL ARTICLE

Margin-based Asset Pricing and Deviations from the Law of One Price Get access >

The Review of Financial Studies, Volume 24, Issue 6, June 2011, Pages 1980–2022, https://doi.org/10.1093/rfs/hhr027

Published: 14 April 2011

Abstract

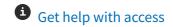
In a model with heterogeneous-risk-aversion agents facing margin constraints, we show how securities' required returns increase in both their betas and their margin requirements. Negative shocks to fundamentals make margin constraints bind, lowering risk-free rates and raising Sharpe ratios of risky securities, especially for high-margin securities. Such a funding-liquidity crisis gives rise to "bases," that is, price gaps between securities with identical cash-flows but different margins. In the time series, bases depend on the shadow cost of capital, which can be captured through the interest-rate spread between collateralized and uncollateralized loans and, in the cross-section, they depend on relative margins. We test the model empirically using the credit default swap—bond bases and other deviations from the Law of One Price, and use it to evaluate central banks' lending facilities.

© The Author 2011. Published by Oxford University Press on behalf of The Society for Financial Studies. All rights reserved. For Permissions, please e-mail: journals.permissions@oup.com.

Issue Section: Articles

You do not currently have access to this article.

Sign in



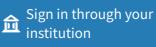
Personal account

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



Register

Institutional access



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

Margin-based Asset Pricing and Deviations from the Law of One Price - 24 Hours access

EUR €53.00 GBP £44.00 USD \$58.00

Rental



This article is also available for rental through DeepDyve.