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Modeling the behavior of real asset prices

[Taewon Kim](#)

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Abstract

Recently there has been much research treating housing and other real assets as financial claims, primarily in order to value their derivative assets, such as mortgages and mortgage-backed securities. Real asset prices are then typically modeled as a lognormal process, in the same manner that has traditionally been applied to firm value. The service flow or implicit value of a house is thus considered, in analogy with stock dividends, to be a fixed proportion of the fluctuating house price. We consider the appropriateness of this formulation and draw some

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University, Los Angeles, 5151 State University

Drive, 90032, Los Angeles, CA, USA

Taewon Kim

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