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# Anomalies: The Equity Premium Puzzle

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JOURNAL OF ECONOMIC PERSPECTIVES
VOL. 11, NO. 1, WINTER 1997
(pp. 191-200)

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## Abstract

The equity premium is the difference in returns between equities and fixed income securities, such as Treasury bills. The puzzle refers to the fact that the premium has historically been very large--about 6 percent per year--too large to be easily explained by risk aversion. The authors document the evidence for the puzzle and find that is exists in many countries, over long time periods, and does not seem to be explained by survivorship bias. They also summarize several theoretical explanations. The authors conclude that it is difficult to explain the equity premium without incorporating some kind of irrationality.

## Citation

Siegel, Jeremy J., and Richard H. Thaler. 1997. "Anomalies: The Equity Premium Puzzle." *Journal of Economic Perspectives*, 11 (1): 191-200.

DOI: 10.1257/jep.11.1.191

## JEL Classification

**G12** Asset Pricing; Trading volume; Bond Interest Rates