

May 01 2010


# Crashes, Volatility, and the Equity Premium: Lessons from S&P 500 Options

Pedro Santa-Clara, Shu Yan

[> Author and Article Information](#)

*The Review of Economics and Statistics* (2010) 92 (2): 435–451.

<https://doi.org/10.1162/rest.2010.11549> [Article history](#) 

[Cite](#) [Permissions](#) [Share](#)  [Views](#) 

## Abstract

We use a novel pricing model to imply time series of diffusive volatility and jump intensity from S&P 500 index options. These two measures capture the ex ante risk assessed by investors. Using a simple general equilibrium model, we translate the implied measures of ex ante risk into an ex ante risk premium. The average premium that compensates the investor for the ex ante risks is 70% higher than the premium for realized volatility. The equity premium implied from option prices is shown to significantly predict subsequent stock market returns.

This content is only available as a PDF.

© 2010 The President and Fellows of Harvard College and the Massachusetts Institute of Technology

You do not currently have access to this content.

## Sign in

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

## Client Account

Email address / Username

Password

[Sign In](#)

[Skip to main content](#)

[Reset password](#)

[Register](#)

Sign in via your Institution

Sign in via your Institution

---

[Buy This Article](#)

## Email Alerts

---

Article Activity Alert

Latest Issue Alert



View Metrics

## Latest

---

Most Read

Most Cited

The Effect of Incarceration on Mortality

Hospital Allocation and Racial Disparities in Health Care

A Year Older, A Year Wiser (and Farther from Frontier):  
Invention Rents and Human Capital Depreciation

A Canonical Representation of Block Matrices with  
Applications to Covariance and Correlation Matrices

## Cited By

---

Web of Science (170)

Google Scholar

Crossref (269)

[Skip to Main Content](#)

## Related Articles

---

The U.S. Money Market and the Term Auction Facility in the Financial Crisis of 2007–2009

*The Review of Economics and Statistics* (May,2011)

The Volatility of Long-Term Bond Returns: Persistent Interest Shocks and Time-Varying Risk Premiums

*The Review of Economics and Statistics* (December,2017)

Capital Control and Monetary Policy in Asian Emerging Market Economies

*Asian Economic Papers* (June,2018)

The Term Structure of Forward Exchange Premiums and the Forecastability of Spot Exchange Rates: Correcting the Errors

*The Review of Economics and Statistics* (August,1997)

## Related Book Chapters

---

Introduction: A Crash Louder Than Thunder

*The World Set Free*

Money and Banking

*Secrets of Economics* Editors

Per-Mile Premiums for Auto Insurance

*Economics for an Imperfect World: Essays in Honor of Joseph E. Stiglitz*

# The Review of Economics and Statistics

Online ISSN: 1530-9142    Print ISSN: 0034-6535

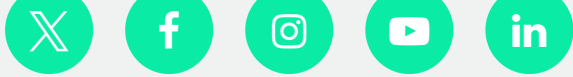


**MIT Press Direct**

A product of The MIT Press

[Skip to Main Content](#)

[Newsletter sign up](#)



## MIT Press Direct

[About MIT Press Direct](#)

[Books](#)

[Journals](#)

[CogNet](#)

## Information

[Accessibility](#)

[For Authors](#)

[For Customers](#)

[For Librarians](#)

[Direct to Open](#)

[Open Access](#)

[Media Inquiries](#)

[Rights and Permissions](#)

[For Advertisers](#)

## MIT Press

[About the MIT Press](#)

[The MIT Press Reader](#)

[MIT Press Blog](#)

[Seasonal Catalogs](#)

[MIT Press Home](#)

[Give to the MIT Press](#)

## Contact Us

[FAQ](#)

[Direct Service Desk](#)

© 2023 The MIT Press

[Terms of Use](#) [Privacy Statement](#) [Crossref Member](#) [COUNTER Member](#)

The MIT Press colophon is registered in the U.S. Patent and Trademark Office