Equity Premium Puzzle

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Equity premium puzzle refers to the observed stock's market premium over bonds market. We analyze data from WSE in order to verify if the premium can be explained with behavioral finance variables, such as heuristics and asymmetric risk aversion. In order to obtain the data on heuristics and biases we conducted a survey on individual investors. The data was later divided into groups concerning each heuristic or bias from Behavioral Finance theory and cluster analysis was applied. This study enabled us to verify the Prospect Theory assumptions for Polish market. Next stage of the research was to apply calculated behavioral variables to the multivariate capital pricing model, based on Mehra and Prescott assumptions on variation of Lucas' pure exchange model.