

New paper examines household production and asset prices

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A new paper by Zhi Da, Viola D. Hank Associate Professor of Finance at the University of Notre Dame, find that residential electricity usage can track household production in real time and helps to price assets.

"The importance of household production in economics has been recognized by Nobel Laureate Gary Becker back in 1960s but measuring what household produces at home has been an empirical challenge," Da said." For example, it has been a puzzle why certain industries such as consumer product, food, and clothing earn higher average returns than others such as steel and fabricated products. Our research shows that consumer product related industries are risky since they have high exposure to household production risk."

In addition to its contribution to economic theory, the research can potentially prove useful for investors.

"Investors can better compute the expected return on a stock or the cost of capital for a firm by taking into consideration the household production risk," Da said. "We find that average investors dislike times when the household production is low. Therefore, stocks or projects with low payoff in those times are more risky and would require higher expected return."

The new paper is Zhi Da's latest effort to use electricity usage to examine finance and economics.

"I found in another paper that the growth rate in industrial electricity usage negatively predicts next-one year stock market return," he said. "For example, if the industrial [electricity usage](#) this month is 1 percent lower than that in the same month last year, we predict the stock market return to be 0.92 percent higher in the next year."

The new study appears in the Journal *Management Science*.

Provided by University of Notre Dame

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