

# Abstract

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## **Relative Wealth and Asset Pricing**

The paper explores the implications for asset pricing of elevating the relative wealth variable to the center stage of agents' utility assessments. The main result is coherence in the pricing of various types of financial assets. The same pricing structure results from a model based on a representative agent with logarithmic utility over absolute wealth. The implied pricing kernel and the asset pricing model based on it are reasonably robust to changes in utility functions and returns' distributions. The excess return of an asset does not depend only on the covariance of its return with the return on the market portfolio but on all their higher co-moments as well. The simple gross risk-free return tends towards the harmonic mean of the probability distribution of simple gross market returns. Options on basic securities, that satisfy the model's restrictions, can be priced using the same model.