

# The Review of

ISSN 0893-9454

Volume 21  
Number 1  
January 2008

# Financial Studies

**Special Issue: The Causes and Consequences of Recent Financial Market Bubbles**

*Utpal Bhattacharya and Xiaoyun Yu, co-editors*

**A Note from the Editor**

**The Causes and Consequences of Recent Financial Market Bubbles: An Introduction**

Utpal Bhattacharya and Xiaoyun Yu

**Bubbles: Some Perspectives (and Loose Talk) from History**

Maureen O'Hara

**Relative Wealth Concerns and Financial Bubbles**

Peter M. DeMarzo, Ron Kaniel, and Ilan Kremer

**Mutual Funds and Bubbles: The Surprising Role of Contractual Incentives**

Nishant Dass, Massimo Massa, and Rajdeep Patgiri

**Analyst Behavior Following IPOs: The "Bubble Period" Evidence**

Daniel J. Bradley, Bradford D. Jordan, and Jay R. Ritter

**Money Illusion and Housing Frenzies**

Markus K. Brunnermeier and Christian Julliard

**Regular Articles**

**Conditioning Information and Variance Bounds on Pricing Kernels with Higher-Order Moments: Theory and Evidence**

Fousseni Chabi-Yo

**Estimating the Dynamics of Mutual Fund Alphas and Betas**

Harry Mamaysky, Matthew Spiegel, and Hong Zhang

**A Dynamic Model for the Forward Curve**

Choong Tze Chua, Dean Foster, Krishna Ramaswamy, and Robert Stine

**Is Nonlinear Drift Implied by the Short End of the Term Structure?**

Hideyuki Takamizawa

**Two Trees**

John H. Cochrane, Francis A. Longstaff, and Pedro Santa-Clara

**Investor Sentiment and Option Prices**

Bing Han

**Asset Pricing with Limited Risk Sharing and Heterogeneous Agents**

Francisco Gomes and Alexander Michaelides

**Stocks or Options? Moral Hazard, Firm Viability, and the Design of Compensation Contracts**

Ohad Kadan and Jeroen M. Swinkels

[www.rfs.oxfordjournals.org](http://www.rfs.oxfordjournals.org)

**Executive Editor**

Matthew Spiegel  
Yale University

**Editors**

Paolo Fulghieri  
University of North Carolina at  
Chapel Hill

Joel Hasbrouck  
New York University

Tobias Moskowitz  
University of Chicago

Michael Weisbach  
University of Illinois at  
Urbana-Champaign

Raman Uppal  
London Business School

**Associate Editors**

Viral Acharya  
London Business School

Andrew Ang  
Columbia University

Malcolm Baker  
Harvard Business School

Gurdip Bakshi  
University of Maryland

Antonio Bernardo  
University of California,  
Los Angeles

Utpal Bhattacharya  
Indiana University

Markus Brunnermeier  
Princeton University

Murillo Campello  
University of Illinois

Thomas Chemmanur  
Boston College

Tarun Chordia  
Emory University

Greg Duffee  
Haas School of Business

Murray Frank  
University of Minnesota

Jean Helwege  
Pennsylvania State University

Alexander Ljungqvist  
Stern School of Business

Stefan Nagel  
Stanford University

Lubos Pastor  
University of Chicago

Jeffrey Pontiff  
Boston College

Allen Potesman  
University of Illinois at  
Urbana-Champaign

**Advisory Editor**

Christopher Schwarz  
Yale University

**Assistant Editor**

Tricia Cushing  
Yale University

*The Review of Financial Studies* is published by Oxford University Press for The Society for Financial Studies.

**Subscriptions.** A subscription to *The Review of Financial Studies* comprises 6 issues. Prices include postage; for subscribers outside the Americas, issues are sent air freight. *The Review of Financial Studies* Advance Access contains papers that have recently been accepted but have not yet been included within an issue. Advance Access is updated daily.

Annual Subscription Rate (Volume 21, 6 issues, 2008)

**Institutional**

Print edition and site-wide online access: £223.00/US\$335.00/€335.00

Print edition only: £212.00/US\$318.00/€318.00

Site-wide online access only: £212.00/US\$318.00/€318.00

**Personal**

Print edition: £43.00/US\$65.00/€65.00 (£13.00/US\$19.00/€19.00 for students)

Please note: £ rates apply in the UK, € in Europe, and \$ elsewhere. Payment for orders to be delivered within Europe should be made in €.

There are other subscription rates available; for a complete listing, please visit [www.rvfj.oxfordjournals.org/subscriptions](http://www.rvfj.oxfordjournals.org/subscriptions).

Full prepayment in the correct currency is required for all orders. Orders are regarded as firm, and payments are not refundable. Subscriptions are accepted and entered on a complete volume basis. Claims cannot be considered more than four months after publication or date of order, whichever is later. All subscriptions in Canada are subject to GST. Subscriptions in the EU may be subject to European VAT. If registered, please supply details to avoid unnecessary charges. For subscriptions that include online versions, a proportion of the subscription price may be subject to UK VAT. Personal rates are applicable only when a subscription is for individual use and are not available if delivery is made to a corporate address.

The current year and two previous years' issues are available from Oxford University Press. Previous volumes can be obtained from the Periodicals Service Company, 11 Main Street, Germantown, NY 12526, USA. E-mail: [pse@periodicals.com](mailto:pse@periodicals.com). Tel: (518) 537-4700. Fax: (518) 537-5899.

**Contact information:** Journals Customer Service Department, Oxford University Press, Great Clarendon Street, Oxford OX2 6DP, UK. E-mail: [jnls.cust.serv@oxfordjournals.org](mailto:jnls.cust.serv@oxfordjournals.org). Tel: +44 (0)1865 353907. Fax: +44 (0)1865 353485. **In the Americas, please contact:** Journals Customer Service Department, Oxford University Press, 2001 Evans Road, Cary, NC 27513, USA. E-mail: [jnldorders@oxfordjournals.org](mailto:jnldorders@oxfordjournals.org). Tel: (800) 852-7323 (toll-free in USA/Canada) or (919) 677-0977. Fax: (919) 677-1714. In Japan, please contact: Journals Customer Service Department, Oxford Journals, Oxford University Press, Tokyo, 4-5-10-8F Shiba, Minato-ku, Tokyo 108-8386, Japan. E-mail: [oujnl@po.ijinet.or.jp](mailto:oujnl@po.ijinet.or.jp). Tel: (03) 3813 1461. Fax: (03) 3818 1522.

*The Review of Financial Studies* is published bi-monthly by Oxford University Press, 2001 Evans Road, Cary, NC 27513-2009. Periodical Postage Paid at Cary, NC, and additional mailing offices. Postmaster: send address changes to *The Review of Financial Studies*, Journals Customer Service Department, Oxford University Press, 2001 Evans Road, Cary, NC 27513-2009.

**Digital Object Identifiers.** For information about dois and how to resolve them, please visit [www.doi.org](http://www.doi.org)

**Permissions.** For information on how to request permissions to reproduce articles or information from this journal, please visit [www.oxfordjournals.org/jnls/permissions](http://www.oxfordjournals.org/jnls/permissions).

**Author Self-Archiving/Public Access policy.** For information about this journal's policy, please visit our Author Self-Archiving policy page: [http://www.oxfordjournals.org/access\\_purchase/self-archiving\\_policyk.html](http://www.oxfordjournals.org/access_purchase/self-archiving_policyk.html).

**Advertising.** Inquiries about advertising should be sent to Helen Pearson, Oxford Journals Advertising, PO Box 347, Abingdon OX14 1GJ, UK. E-mail: [helen@oxfordads.com](mailto:helen@oxfordads.com). Tel/Fax: +44 (0)8704 296864.

*The Review of Financial Studies* is indexed and/or abstracted by *Current Contents*, the *Economic Literature Index*, the *Finance Literature Index*, the *International Bibliography of the Social Sciences*, the *International Current Awareness Service: Economics*, *Journal Contents in Quantitative Method*, the *Journal of Economic Literature*, *Research Papers in Economics*, and *Social Sciences Citation Index*.

**Disclaimer.** Statements of fact and opinion in the articles in *The Review of Financial Studies* are those of the respective authors and contributors and not of *The Review of Financial Studies* or Oxford University Press. Neither Oxford University Press nor *The Review of Financial Studies* makes any representation, express or implied, in respect of the accuracy of the material in this journal and cannot accept any legal responsibility or liability for any errors or omissions that may be made. The reader should make her or his own evaluation as to the appropriateness or otherwise of any experimental technique described.

Copyright 2008 The Society for Financial Studies

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without prior written permission of the publisher or a license permitting restricted copying issued in the UK by the Copyright Licensing Agency Ltd, 90 Tottenham Court Road, London W1P 9HE, or in the USA by the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923.