# Mispricing and Uncertainty in International Markets

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This paper stems from two empirical observations.

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- $b_i$ relates to expected stock returns

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- $$b_i = \underbrace{\text{ICC-implied expected return}}_{\text{Proxy for investors' perceived discount rate}} - \underbrace{\text{CAPM-implied expected return}}_{\text{proxy for actual expected discount rate}}$$
- Tests whether $\alpha_i = \theta(-b_i + \beta_i b_M)$, consistent with the CDS theory

# Questions on theory

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    - Is it because investors ignore discount rate dynamics for their convenience?
    - or because they have behavioral biases?
    - or because it is optimal for investors to assume a **cdr** to minimize estimation risk (e.g., Lewellen and Shanken (JF, 2003))

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**Suggestions:**

1. Unified model for biases and expected returns
2. Argue and test what channel causes biases?

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**question 2:**

1. The paper uses $\beta$ proposed by Welch to compute the CAPM-implied expected returns
2. Why not use the standard betas?

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4. In contrast, this paper shows $\alpha \propto \theta(-b + \beta b_M)$
5. Thus, I wonder if this result explains/contrasts the BAB result

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- Look forward to reading the next version of the paper