



LEMMA

Laboratoire d'économie
mathématique et de
microéconomie appliquée

SÉMINAIRE

MARKET FRICTIONS AND PROFITABLE ARBITRAGE

21 février 2023

**Lemma - Salle Maurice Desplas (4
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Séminaire du LEMMA

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Abstract:

We develop an asset pricing model by absence of arbitrage. We generalize the classic model by taking into account the existence of frictions. In particular, we relax the monotonicity assumption which is justified both theoretically and empirically. Thus, we obtain two classes of pricing rules. Under Put-Call Parity, we get a Choquet pricing rule with a non-monotonic set function. Under subadditivity, we get a Multiple Priors pricing rule which takes the form of the maximum of signed probability measures. Finally, we offer a parametrical class of Choquet pricing rules which are tractable.

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