

**A NEW SOLUTION TO THE EQUITY PREMIUM PUZZLE AND
THE RISK-FREE RATE PUZZLE: VERIFICATION BASED
ON JAPAN AND US DATA**

By HIDEAKI TAMURA and YOICHI MATSUBAYASHI

《SUMMARY》

The problem of the equity premium puzzle and the risk-free rate puzzle is considered as a problem of the omitted variable bias by trying to explain everything of consumption behavior of household only by the rate of return on assets. Though the C-CAPM under the time separable CRRA type utility function has been rejected in many empirical studies in Japan and the United States, in this paper, we demonstrate that both puzzles can be solved theoretically and empirically even under standard CRRA type utility function by formulating the Euler equation to take into account uncertainty as a new explanatory variable of household consumption.