

# Asset Pricing with Garbage

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## ABSTRACT

A new measure of consumption, garbage, is more volatile and more correlated with stocks than the canonical measure, National Income and Product Accounts (NIPA) consumption expenditure. A garbage-based consumption capital asset pricing model matches the U.S. equity premium with relative risk aversion of 17 versus 81 and evades the joint equity premium-risk-free rate puzzle. These results carry through to European data. In a cross-section of size, value, and industry portfolios, garbage growth is priced and drives out NIPA expenditure growth.