
STEPHAN STURM, WPI (Worcester Polytechnic Institute)

Cost efficiency in incomplete markets

We consider a portfolio choice problem maximizing terminal wealth on a finite time horizon. The cost-efficiency in complete market characterizes the optimal portfolio as the minimizer of the risk neutral hedging costs among all random variables having the same distribution. We provide a generalization of the cost efficiency principle to incomplete markets and provide applications to the characterization of the rationality of portfolio choice. This is joint work with Carole Bernard (Grenoble).