

	Stochastic dominance: an overall review with empirical applications
Year:	2019
Author:	Evanthia K. Zervoudi
Abstract:	This paper presents all the Stochastic Dominance (SD) rules (including Markowitz and Prospect SD Rule), situations relating to these rules such as arbitrage, and several classes of preferences consistent to the SD approach. It also contains various algorithms for testing SD relations and necessary and sufficient conditions that may improve the efficiency of each SD Rule. Finally, it is examined the existence of the well-known equity premium puzzle in several economic environments, under different economic conditions and varying time horizons. The analysis is developed in a Stochastic Dominance framework using original evidence from three markets: US, UK and Germany market. The results show that stocks stochastically dominate bonds at second order (and at any higher order) for any time horizon, under different economic situations for all international markets (US, UK, Germany). This implies that stocks outperform bonds in a great percentage and the equity premium puzzle is real and robust. Key words and phrases. Stochastic Dominance, Equity premium puzzle, Prospect Theory, Decision Theory, Effectiveness, Utility Function.