Abstract

This paper investigates the relationship between the real sector that involves the consumption, investment and production, and the financial sector that concerns the prices and interest rates of the stocks and bonds under the representative agent models with production in continuous time. We study the effects of changes in risk and ambiguity on the equilibria in our models. Principal results in this paper are that the existence of ambiguity and ambiguity aversion 1) causes an increase of the trend of the stock price and a decrease of the investment and production; 2) raises the trading volume of the stocks.