**Macroeconomics and Asset Market: some Mutual Implications**

**Abstract**

This paper sheds light on the mutual discipline, which asset market observations and macroeconomic observation impose on each other. Economic choices such as consumption and leisure, which are taken as exogenous in much of the asset pricing literature, and which may suggest certain preference specifications in order to explain asset price observations in turn may have undesirable macroeconomic consequences, once these economic choices are endogenized.
We study a generic representative agent real business cycle economy, and show, how to analyze it in general, and explore the interconnections between asset market observations, macroeconomic observations and theoretical choices of key parameters. We give particular consideration to the nonseparability between consumption and leisure and investigate the scope of this nonseparability to help explain e.g. the equity premium observation.
As an extension, we also study a two-agent economy, following the lead of Guvenen (2003), and found some undesirable implications of that model as well.
We find that the major obstacle to overcome is the endogeneity of labor market movements. We therefore propose an exogenous law of motion for wages and find that simple models can then go remarkably far in jointly explaining the observed facts.