ON USER COSTS OF RISKY MONETARY ASSETS

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ABSTRACT

We extend the monetary-asset user-cost risk adjustment of Barnett, Liu, and Jensen (1997) and their risk-adjusted Divisia monetary aggregates to the case of multiple non-monetary assets and intertemporal non-separability. Our model can generate potentially larger and more accurate CCAPM user-cost risk adjustments than those found in Barnett, Liu, and Jensen (1997). We show that the risk adjustment to a monetary asset's user cost can be measured easily by its *beta*. We show that any risky nonmonetary asset can be used as the benchmark asset, if its rate of return is adjusted in accordance with our formula. These extensions could be especially useful, when own rates of return are subject to exchange rate risk, as in Barnett (2003).