

**HEDGING, PRICING AND ESTIMATION OF STOCHASTIC DISCOUNT  
FACTORS IN A GENERAL NON-CONVEX FRAMEWORK IN AN  
INCOMPLETE MARKET.**

HIRBOD ASSA

INSTITUTE FOR FINANCIAL AND ACTUARIAL MATHEMATICS, UNIVERSITY OF LIVERPOOL

ABSTRACT. First, we review briefly different strands of literature on hedging which have been developed in various fields such as finance, economics, operations research and mathematics, and then try to come up with a tractable way for hedging and pricing. By introducing different market principles, we study conditions under which the hedging problem has a solution and pricing is possible. We will conduct an in-depth theoretical analysis of hedging strategies with the spectral risk measures, in particular those associated with Choquet expected utility. Second, we will apply our results in the first part to construct an economic risk hedge. We introduce a general method to estimate the stochastic discount factors associated with different risk measures and different financial models.