

# Capital Assets Pricing Model

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# THE CAPITAL ASSET PRICING MODEL

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# RESEARCH QUESTION

- How do investors estimate the return on alternative assets given different levels of associated risk?

10 year time-span:  
Jan 2003 - Dec 2012

## THE CAPITAL ASSET PRICING MODEL

• Explains the relationship between risk and expected return

ESTIMATED MODEL :  
 $R_{kt} - R_{ft} = \alpha + \beta t(R_{mt} - R_{ft}) + \epsilon_t$



## ***THE CAPITAL ASSET PRICING MODEL***

- Explains the relationship between risk and expected return

**ESTIMATED MODEL :**

$$R_{kt} - R_{ft} = a_t + \beta_t(R_{mt} - R_{ft}) + \epsilon_t$$