Beta and Return

1. What is the topic?

The relationship between Beta and the average return on stocks.

2. What is the research question?

To prove that the theory of Fama and French is true or not. Which is the relationship between Beta and the average return on stocks is flat.

3. What are the predictions and the rationale for these predictions?

Beta as the sole variable explaining returns on stocks is dead which explains that the relation between average return and beta is completely flat.

4. What methods were used (participants, sampling, materials, procedure)? What were the variables and controls?

In this paper, they use three steps of methods which are Data Mining, Beta Theory, and the Varying The Analysis respectively. The variables and controls in this method are mainly focused on Beta coefficient, standard deviation, probability, alpha, means, and T-score.

5. What were the main results?

The result is quite differ from the prediction, it depends on whether the borrowing restriction of the corporation is lower than the individual making the relationship of beta and return is flatter than the estimated one.

6. Are the findings supported by previous research?

It goes with the similar way of the previous research but it is different like I said in question 5.

7. What are the limitations of the study?

According to question 5 and 6, the limitations of this study is the borrowing restriction because it is the external factor which cannot control,

8. What are the implications or applications of the findings?

On the corporate side , A rational organization will assess an investment using the betas of the investment's cash flows, regardless of the slope of the line. It will not use the betas of any of its other assets or liabilities. Beta's "death" has been predicted, although it appears to be premature.

The evidence that leads to such assertions suggests that beta has more applications than ever before. Individuals and organizations with access to free credit should continue to utilize the CAPM and beta to appraise investments and select portfolio strategies.

The Equity Premium

1. What is the topic?

   It is about the definition and how the equity premium occurred.

2. What is the research question?

   whether models that abstract away transaction costs, liquidity limits, and other frictions lacking in the Arrow - Debreu set-up can explain this huge difference in average returns.

3. What are the predictions and the rationale for these predictions?

   Most certainly, some equilibrium model with friction will explain the significant average equity premium satisfactorily.

4. What methods were used (participants, sampling, materials, procedure)? What were the variables and controls?

   With the findings in macro and micro economics, this paper uses the equilibrium growth rate process on consumption and equilibrium asset returns are stagnant in competitive pure exchange economies, and uses the data consisting of five basic series according to Grossman and Shiller study to find the risk free rate.

5. What were the main results?

   If one accepts Friend and Blume's (1975) discovery that the curvature parameter considerably exceeds one, this conclusion follows. The model's average risk-free rate for a = 2 is at least 3.7 percent each year, which is much higher than the sample average of 0.80, given the sample average's standard deviation of just 0.60. If an is close to zero and individuals are almost risk-neutral, one could ask why the average return on equity is so high.

6. Are the findings supported by previous research?

   According to the result implied by Arrow-Debreu, the return of this paper is lower than the previous one. So, it is different from the previous research.

7. What are the limitations of the study?

   To be accurate, the test requires some of the necessary data which is consumption by income or age group.

8. What are the implications or applications of the findings?

   In my opinion, it is hard to use in the real world but it make more understanding about the equity premium mechanism which can be adapt in the investment.