

TESTING CAPITAL ASSET PRICING MODEL FOR ROMANIAN CAPITAL MARKET

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Abstract:

The purpose of this article is the empirical testing of Capital Asset Pricing Model (CAPM) for the Romanian capital market, both for individual assets and for portfolios, using a sample of daily data for 24 companies listed on Bucharest Stock Exchange, during the period 06.01.2003 - 31.07.2009, following the interpretation of results and usefulness of the model estimates. My intention is to find if the relationship between expected return and risk is linear, if beta is a complete measure of the risk and if a higher risk is compensated by a higher expected return. The results confirm that the intercept is statistically insignificant, upholding theory, for both individual assets and portfolios. The tests do not necessarily provide evidence against CAPM, however other simulations can be built, more close to reality, improving the model and offering an alternative which also takes into account the specific conditions of local capital market and the global financial crisis consequences.

Keywords: Capital Asset Pricing Model (CAPM), beta, risk free rate, risk premium, expected return

JEL codes:: G12