According to the Capital Asset Pricing Model (CAPM), the risk associated with a capital asset is proportional to the slope ß obtained by regressing the asset’s past returns with the corresponding returns of the average portfolio called the market portfolio. (The return of the market portfolio represents the return earned by the average investor. It is a weighted average of the returns from all of the assets in the market.) The larger the slope ß of an asset, the larger is the risk associated with that asset. A ß of 1.00 represents average risk.

The returns from an electronic firms stock and the corresponding returns for the market portfolio for the past 15 years are given below.

|  |  |
| --- | --- |
| Market Return % | Stock’s Return % |
| 16.02 | 21.05 |
| 12.17 | 17.25 |
| 11.48 | 13.1 |
| 17.62 | 18.23 |
| 20.01 | 21.52 |
| 14 | 13.26 |
| 13.22 | 15.84 |
| 17.79 | 22.18 |
| 15.46 | 16.26 |
| 8.09 | 5.64 |
| 11 | 10.55 |
| 18.52 | 17.86 |
| 14.05 | 12.75 |
| 8.79 | 9.13 |
| 11.6 | 13.87 |

1. Carry out the regression and find the ß for the stock. What is the regression equation?

(Templates are attached if they can be used)

1. Does the value of the slope indicate that the stock has above-average risk? (For the purposes of this case, assume that the risk is average if the slope is in the range 1 ± 0.1, below average if it is less than 0.9, and above average if it is more than 1.1)
2. (Templates are attached if they can be used)