International Finance Homework 2

Due Date: 2023-10-30, 23:59 pm

On page 168, the slope coefficients for Fama Decomposition Regressions can be expressed as:

$$\beta_1 = \frac{Var(p_t) + Cov[p_t, E_t(\Delta s_{t+1})]}{Var(p_t) + Var[E_t(\Delta s_{t+1})] + 2Cov[p_t, E_t(\Delta s_{t+1})]}$$

$$\beta_2 = \frac{Var[E_t(\Delta s_{t+1})] + Cov[p_t, E_t(\Delta s_{t+1})]}{Var(p_t) + Var[E - t(\Delta s_{t+1})] + 2Cov[p_t, E_t(\Delta s_{t+1})]}$$

Could you show me in detail how to get the above two equations?