

BAF504: Assignment 3

(Due: 6:00 pm. May 17, 2024)

Select any four stocks from the pool of market index. Make sure all four stocks belong to four different industries. You will estimate the single index model for each of the chosen stocks.

- a) Collect the 60 recent monthly returns of the chosen stocks, and the monthly T-bill rates for the same period. Also, you need market index returns for the same period. Run regression model with this data. Report the alpha and beta estimates.
- b) Interpret each estimate of alpha and beta. Consider the smallest and largest betas among the four stocks. To which industries do the two companies belong? Is the business consistent with the estimated beta for the two companies?
- c) Use the first 30 months only and run the regression. Report the alpha and beta estimates.
- d) Use the last 30 months only and run the regression. Report the alpha and beta estimates.
- e) Are the three sets of estimates identical? Discuss the result of a), c) and d).