

Financial Anomalies

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Table of contents

Preface	3
1 Introduction	4
2 Summary	5
References	6

Preface

The article is designed to study financial anomalies

1 Introduction

Fama and MacBeth (1973) : Two-parameter risk-return regression equation is based on Equation 1:

$$x_{im} \equiv \frac{\text{total market value of all units of assets } i}{\text{total market value of all assets}} \quad (1.1)$$

where asset(i) in the portfolio(m)

Equation 1 refers to the market equilibrium (market portfolio) is always efficient (Black (1972)).

Expected Return is given by Equation 1, β_i is the risk of the asset i of the portfolio m , measured relative to $\sigma^2(\tilde{R}_m)$

$$E(\tilde{R}_i) = [E(\tilde{R}_m) - S_m \sigma(\tilde{R}_m)] + S_m \sigma(\tilde{R}_m) \beta_i, \quad (1.2)$$

$$\text{where,} \quad (1.3)$$

$$\beta_i \equiv \frac{\text{cov}(\tilde{R}_i, \tilde{R}_m)}{\sigma^2(\tilde{R}_m)} = \frac{\sigma_{j=1}^N x_{jm} \sigma_{ij}}{\sigma^2(\tilde{R}_m)} = \frac{\text{cov}(\tilde{R}_i, \tilde{R}_m) \sigma(\tilde{R}_m)}{\sigma(\tilde{R}_m)}$$

$$S_m = \frac{E(\tilde{R}_m) - E(\tilde{R}_0)}{\sigma(\tilde{R}_m)} \quad (1.4)$$

$$\text{hence } E(\tilde{R}_i) = E(\tilde{R}_0) + [E(\tilde{R}_m) - E(\tilde{R}_0)] \beta_i$$

Hence, Equation 1 refers that expected return on security i is $E(\tilde{R}_0)$, the expected return on a security that is riskless in the portfolio m , plus a risk premium that is β_i times the difference between $E(\tilde{R}_m)$ and $E(\tilde{R}_0)$

2 Summary

In summary, this book has no content whatsoever.

References

- Black, Fischer. 1972. “Capital Market Equilibrium with Restricted Borrowing.” *The Journal of Business* 45 (3): 444–55.
- Fama, Eugene F, and James D MacBeth. 1973. “Risk, Return, and Equilibrium: Empirical Tests.” *Journal of Political Economy* 81 (3): 607–36.