

Risk level essay

Literature, Russian Literature



Capital market has become an integral part of economies of all developing countries. The Indian economy has a steady growth rate over the last two decades.

The Indian capital market has been witnessing an unprecedented growth, demonstrated by the soaring in stock market. Ours is the second fastest growing economies after China with an average annual growth rate of more than 8 per cent in the last three years. The growth is mainly focused on the return what the investor acquire out of their investments several models have been used by the investors to obtain maximum return with minimum risk level. The capital asset pricing model (CAMP) is a mathematical model that seeks to explain the relationship between risk and returns in a rational equilibrium market. CAMP has been widely accepted as the most appropriate technique for evaluating financial assets. The general idea behind CAMP is that investors need to be compensated in two ways: (a) time value of money and (b) risk.

It also helps to make an informed guess about the returns that can be expected from a security that has not yet been traded in the market.

Although the empirical evidence on the CAMP is mixed, it is widely used because of the valuable insights. There is a controversy regarding the empirical validity of the CAMP. Many studies have argued for an empirical assessment of the model in India. It notes that the evidence is not sufficient to drop the use of the CAMP. On one side, there is strong empirical evidence invalidating the capital asset pricing model and on the other hand, it is clear that empirical findings are not themselves sufficient to discard the model.

The main objective of this study is to review the Application of Capital Asset

Pricing Model and its implications in the National Stock Exchange with special reference to CNN BANK Index stock. The tools used for the study are as follows The daily returns of the securities are calculated as above: Pit-pit-I Pit-I Where Rite is the return on security I, Pit is the closing price of security I for time t an Pit-I is the closing price of security I for time t-1.

BETA Beta measures the systematic risk compared to the market or benchmark index. It is the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market.

It is calculated as: Where, RA measures the rate of returns of the asset, RPR measures the market returns and Cove (RA, RPR) is the covariance between the individual and market returns. Elated as: c risk compared to the market or benchmark minx asset returns move together. A negative variance means the ALPHA It is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of the security and compares its risk-adjusted performance to a benchmark index.

The excess returns of the security relative to the returns of the benchmark index are a security alpha. A positive alpha of 1. 0 means the security has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an under performance. $(r - RFC) - (P_{ix} (arm - RFC))$ RFC is the risk free rate, arm is the market return represents beta of the security.

CAMP The Capital Asset Pricing Model (CAMP) is a mathematical model that seeks to explain the relationship between risk and return in a rational equilibrium market. CAMP has been widely accepted as the most appropriate technique of evaluating financial assets. CAMP is widely based on the assumptions. The following market model is used to represent the expected returns on security based on the time series regression. $R_i = A_i + \beta_i R_m + e_i$
Mean of $(e_i) = 0$ Where e_i is the error term with mean zero and a standard deviation which is constant, this term captures the variations in the security i that are not captured by the market index m . The CAMP is an equilibrium model that explains linear relationship between beta and expected returns.