



TESTING THE VALIDITY OF CAPITAL ASSET PRICING MODEL (CAPM) ON INDIAN STOCK MARKET

Mitalee A.Pithawala¹

ABSTRACT

The aim of this research is to examine the applicability of Capital Asset Pricing Model (CAPM) in explaining the risk-return relation in the Indian stock market for the period of April 2005 to March 2015. The test, using linear regression method, was carried out on the model. CAPM uses market sensitivity Beta to describe the variation of stock returns. The model is developed for BSE SENSEX listed 30 companies during the period 2005 to 2015 and results are compared with the actual returns. It is found that the CAPM gives better results for pricing single security that are closer to the actual returns. Study compares the estimated parameter beta to check CAPM model has a better explanation on the relationship between risk factors and stock returns. The research concludes that the CAPM has more explanatory power for prediction of single security expected return. Research also finds that the market beta is the key factor, no matter if look at the capital asset pricing model or any other pricing model.

KEYWORDS: Beta, Capital Asset Pricing Model, Intercept, Performance, Risk Return, P value, SENSEX

¹Lecturer, Navnirman institute of management, NIM-BBA, Surat, Gujarat, India
