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Factor models on explaining firm's returns in a credit risk context

By Stefan Heini

GRIN Verlag Apr 2014, 2014. Taschenbuch. Book Condition: Neu. 211x151x6 mm. This item is printed on demand - Print on Demand Neuware - Seminar paper from the year 2012 in the subject Business economics - Investment and Finance, grade: 1, University of Leicester (School of Management), language: English, abstract: Scientists use factor models to try to understand the relationship between risk and asset returns and to make estimations of the likely development of the returns in the future (Sharpe 2001, p.1). Today, two of the most renowned factor models to estimate expected returns of an asset or a firm are the Capital Asset Pricing Model (CAPM), introduced by Treynor (1962), Sharpe (1964), Lintner (1965) and Mossin (1966), and the three-factor model of Fama and French of 1992 (Bartholdy and Peare 2004, p.408). While the CAPM claims the existence of a positive linear relationship between the volatility/risk (market beta) and expected returns (Bali and Cakici 2004, p.57), Fama and French state that their three-factor model (3FM) has an improved performance in estimating returns as - so they claim - size and book-to-market equity have significant predictive power, too (Fama and French 1992, p.427). 32 pp. Englisch.



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