CAPITAL ASSET PRICING MODEL ON NEPAL STOCK EXCHANGE

A Thesis

By

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis entitled **"Capital Asset Pricing Model on Nepal Stock Exchange"** has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text. I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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RECOMMENDATION LETTER

It is certified that thesis entitled "**Capital Asset Pricing Model on Nepal Stock Exchange**" submitted by Anil Sah is an original piece of research work carried out the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registration the proposal. The thesis is forwarded for examination.

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APPROVAL-SHEET

We, the undersigned, have examined the thesis entitled "**Capital Asset Pricing Model on Nepal Stock Exchange"** presented by Anil Sah, a candidate for the degree of Master of Business Studies (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Anil Sah

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ABBREVIATIONS

ASE	Amman Stock Exchange
APT	Arbitrage Pricing Theory
BV/MV	Book value to Market value Ratio
CAPM	Capital Asset Pricing Model
CBS	Central Bureau of Statistics
DY	Dividend Yield
EPS	Earnings Per Share
GDP	Gross Domestic Product
GARCH	Generalized Auto Regressive Conditional Heteroscedasticity
ICAPM	Intertemporal Capital Asset Pricing Model
ISE	Istanbul Stock Exchange
MIDAS	Mixed Data Sampling
NEPSE	Nepal Stock Exchange
NYSE	New York Stock Exchange
P/E	Price to Earnings Ratio
SML	Security Market Line
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
US	United States
VAR	Vector Autoregressive Method

ABSTRACT

Capital Assets pricing Model (CAPM) provides an equilibrium linear relationship between risk and expected return of an assets. Since, the birth of CAPM by (Treynor,1961, 1962; Sharpe, 1964; Lintner, 1965; Mossin, 1966), enormous efforts have been devoted to studies evaluating applicability of this model. Some empirical studies such as (Suare and Murohy, 1992; Black and Fisher, 1993; Daniel and timan, 1997), have appeared to be in harmony with the principles of CAPM while studies made by (Roll, 1977; Harris*etal*., 2003) and so on contradict the model. The study aims on applying the capital assets pricing model (CAPM) on Nepal Stock Exchange taking monthly data for 29 companies from 2011 to 2019. All the data are collected from official site of Nepal Stock Exchange, Nepal Rastra Bank, Central Bureau of Statists.

This study is based on secondary data. For the purpose of this analysis, this study has used approach methods as describe by Black, Jensen and Scholes(1972) time series test, Fama and MacBeth (1973) cross-sectional test and regression model of CAPM. The CAPM study is conducted by dividing the study period as 10 different year of one year each and for long period consisting of whole study period.

The both short period and long period analysis of CAPM gives the mixed results and couldn't provide conclusive evidence in support of CAPM. The study found negative beta value in some of the stock and portfolio which mean their return that moves in the opposite direction from the stock market. This study also found that portfolio with higher beta and lower beta has positive and negative constant values respectively, which suggest that the portfolio with higher beta has bagged more return than CAPM predicted and portfolio with lower beta has bagged less return than CAPM predicted. The data did not provide evidence that higher beta yields higher return while slope of SML is negative and downward sloping.