Adv

Abacus / Volume 49, Issue S1 / pp. 7-23

Original Article

The Capital Asset Pricing Model (CAPM): The History of a Failed Revolutionary Idea in Finance?

Mike Dempsey

First published: 03 December 2012

https://doi.org/10.1111/j.1467-6281.2012.00379.x

PDF

Abstract

The capital asset pricing model (CAPM) states that assets are priced commensurate with a trade-off between undiversifiable risk and expectations of return. The model underpins the status of academic finance, as well as the belief that asset pricing is an appropriate subject for economic study. Notwithstanding, our findings imply that in adhering to the CAPM we are choosing to encounter the market on our own terms of rationality, rather than the market's.

References

Amihud, Y., and H. Mendelson, 'Asset Pricing and the Bid–Ask Spread', *Journal of Financial Economics*, Vol. **17**, No. 2, 1986.

Google Scholar

Banz, R., 'The Relationship Between Return and Market Value of Common Stocks', *Journal of Financial Economics*, Vol. **9**, No. 1, 1981.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Black, F., ‘Capital Market Equilibrium With Restricted Borrowing’, *Journal of Business*, Vol. **45**, No. 3, 1972.

CAS | Google Scholar

Black, F., ‘Beta and Return’, *The Journal of Portfolio Management*, Vol. **20**, No. 1, 1993.

CAS | Web of Science® | Google Scholar

Black, F., M. Jensen and M. Scholes, ‘ The Capital Asset Pricing Model: Some Empirical Tests’, in M. Jensen (ed.), *Studies in the Theory of Capital Markets*, Praeger Publishers, 1972.

Google Scholar

Brennan, M., A. Wang and Y. Xia, ‘Estimation and Test of a Simple Model of Intertemporal Capital Asset Pricing’, *Journal of Finance*, Vol. **59**, No. 4, 2004.

Web of Science® | Google Scholar

Campbell, J., J. Hilscher and J. Szilagyi, ‘In Search of Distress Risk’, *Journal of Finance*, Vol. **63**, No. 6, 2008.

CAS | Web of Science® | Google Scholar

Campbell, J., and T. Vuolteenaho, ‘Bad Beta, Good Beta’, *American Economic Review*, Vol. **94**, No. 5, 2004.

PubMed | Web of Science® | Google Scholar

Carhart, M. M., ‘On Persistence in Mutual Fund Performance’, *Journal of Finance*, Vol. **52**, No. 1, 1997.

Web of Science® | Google Scholar

Chan, L., Y. Hamao and J. Lakonishok, ‘Fundamentals and Stock Returns in Japan’, *Journal of Finance*, Vol. **46**, No. 5, 1991.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Chordia, T., S. Huh and A. Subrahmanyam, 'Theory-Based Illiquidity and Asset Pricing', *Review of Financial Studies*, Vol. **22**, No. 9, 2009.

Web of Science® | Google Scholar

Chordia, T., R. Roll and A. Subrahmanyam, 'Order Imbalance, Liquidity and Market Returns', *Journal of Financial Economics*, Vol. **65**, No. 1, 2002.

Web of Science® | Google Scholar

Chordia, T., R. Roll and A. Subrahmanyam, 'Liquidity and Market Efficiency', *Journal of Financial Economics*, Vol. **87**, No. 2, 2008.

Web of Science® | Google Scholar

Chordia, T., A. Sarkar and A. Subrahmanyam, 'An Empirical Analysis of Stock and Bond Market Liquidity', *Review of Financial Studies*, Vol. **18**, No. 1, 2005.

Web of Science® | Google Scholar

Chordia, T., and L. Shivakumar, 'Momentum, Business Cycle, and Time-Varying Expected Returns', *Journal of Finance*, Vol. **57**, No. 2, 2002.

Web of Science® | Google Scholar

Cochrane, J., *Asset Pricing*, rev. ed., Princeton University Press, 2005.

Google Scholar

Cohen, L., and A. Frazzini, 'Economic Links and Predictable Returns', *Journal of Finance*, Vol. **63**, No. 4, 2008.

CAS | Web of Science® | Google Scholar

Conrad, J., and G. Kaul, 'Long-Term Market Overreaction or Biases in Computed Returns?', *Journal of Finance*,

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Da, Z., 'Cash Flow, Consumption Risk, and the Cross-Section of Stock Returns', *Journal of Finance*, Vol. **64**, No. 2, 2009.

PubMed | Web of Science® | Google Scholar

Daniel, K., and S. Titman, 'Evidence on the Characteristics of Cross Sectional Variation in Stock Returns', *Journal of Finance*, Vol. **52**, No. 1, 1997.

Web of Science® | Google Scholar

DeBondt, W., and R. Thaler, 'Does the Stock Market Overreact?', *Journal of Finance*, Vol. **40**, No. 3, 1985.

Web of Science® | Google Scholar

DeBondt, W., and R. Thaler, 'Further Evidence on Investor Overreaction and Stock Market Seasonality', *Journal of Finance*, Vol. **42**, No. 3, 1987.

Google Scholar

Dichev, I., 'Is the Risk of Bankruptcy a Systematic Risk?', *Journal of Finance*, Vol. **53**, No. 3, 1998.

Web of Science® | Google Scholar

Douglas, G., 'Risk in the Equity Markets: An Empirical Appraisal of Market Efficiency', *Yale Economic Essays*, Vol. **9**, 1969.

Google Scholar

Fama, F., *Foundations of Finance*, Basic Books, 1976.

Google Scholar

Fama, E., and J. McBeth, 'Risk, Return and Equilibrium: Empirical Tests', *Journal of Political Economy*, Vol. **81**, No. 3, 1973.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Fama, E., and K. French, 'Common Risk Factors in the Returns on Stocks and Bonds', *Journal of Financial Economics*, Vol. **33**, No. 1, 1993.

Web of Science® | Google Scholar

Fama, E., and K. French, *Industry Costs of Equity*, Working Paper, Graduate School of Business, University of Chicago, 1994.

Google Scholar

Fama, E., and K. French, 'Size and Book-to-Market Factors in Earnings and Returns', *Journal of Finance*, Vol. **50**, No. 1, 1995.

CAS | Web of Science® | Google Scholar

Fama, E., and K. French, 'Multifactor Explanations of Asset Pricing Anomalies', *Journal of Finance*, Vol. **51**, No. 1, 1996.

Google Scholar

Fama, E., and K. French, 'Dissecting Anomalies', *Journal of Finance*, Vol. **63**, No. 4, 2008.

Web of Science® | Google Scholar

Griffin, J., S. Ji and S. Martin, 'Momentum Investing and Business Cycle Risk: Evidence From Pole to Pole', *Journal of Finance*, Vol. **58**, No. 6, 2003.

Web of Science® | Google Scholar

Griffin, J., and M. Lemmon, 'Book-to-Market Equity, Distress Risk, and Stock Returns', *Journal of Finance*, Vol. **57**, No. 5, 2002.

CAS | Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Heston, S., and R. Sadka, 'Seasonality in the Cross-Section of Stock Returns', *Journal of Financial Economics*, Vol. **87**, No. 2, 2008.

Web of Science® | Google Scholar

Hong, H., T. Lim and J. Stein, 'Bad News Travels Slowly: Size, Analyst Coverage, and the Profitability of Momentum Strategies', *Journal of Finance*, Vol. **55**, No. 1, 2000.

CAS | Web of Science® | Google Scholar

Jagannathan, R., and Z. Wang, 'The Conditional CAPM and the Cross-Section of Expected Returns', *Journal of Finance*, Vol. **51**, No. 1, 1996.

Web of Science® | Google Scholar

Jegadeesh, N., and S. Titman, 'Returns to Buying Winners and Selling Losers: Implications for Stockmarket Efficiency', *Journal of Finance*, Vol. **48**, No. 1, 1993.

Web of Science® | Google Scholar

Jensen, M., ' The Foundations and Current State of Capital Market Theory', in M. Jensen (ed.), *Studies in the Theory of Capital Markets*, Praeger Publishers, 1972.

Google Scholar

Jensen, M., 'Some Anomalous Evidence Regarding Market Efficiency', *Journal of Financial Economics*, Vol. **6**, Nos 2–3, 1978.

Web of Science® | Google Scholar

Kuhn, T., *The Structure of Scientific Revolutions*, University of Chicago Press, 1962.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Web of Science® | Google Scholar

Loughran, T., and J. Ritter, 'Long-Term Market Overreaction: The Effect of Low-Priced Stocks', *Journal of Finance*, Vol. **51**, No. 5, 1996.

Web of Science® | Google Scholar

Malkiel, B., 'Can Predictable Patterns in Market Returns be Exploited Using Real Money? Not Likely', *Journal of Portfolio Management*, Vol. **30**, No. 5, 2004.

Google Scholar

Mehrling, P., *Fisher Black and the Revolutionary Idea of Finance*, John Wiley and Sons, 2007.

Google Scholar

Merton R. C., 'An Intertemporal Capital Asset Pricing Model', *Econometrica*, Vol. **41**, No. 5, 1973.

Web of Science® | Google Scholar

Miller, M., and M. Scholes, ' Rates of Return in Relation to Risk: A Re-Examination of Some Recent Findings', in M. Jensen (ed.), *Studies in the Theory of Capital Markets*, Publishers Praeger, 1972.

Google Scholar

Modigliani, F., and M. Miller, 'The Cost of Capital, Corporation Finance and the Theory of Investment', *American Economic Review*, Vol. **48**, No. 3, 1958.

Web of Science® | Google Scholar

Modigliani, F., and M. Miller, 'Corporate Income Taxes and the Cost of Capital: A Correction', *American Economic Review*, Vol. **53**, No. 3, 1963.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Web of Science® | Google Scholar

Ross, S. A., 'The Arbitrage Theory of Capital Asset Pricing', *Journal of Economic Theory*, Vol. **13**, No. 3, 1976.

Web of Science® | Google Scholar

Ross, S. A., 'The Current Status of the Capital Asset Pricing Model', *Journal of Finance*, Vol. **33**, No. 3, 1978.

Web of Science® | Google Scholar

Rouwenhorst, K., 'International Momentum Strategies', *Journal of Finance*, Vol. **53**, No. 1, 1998.

Web of Science® | Google Scholar

Ryan, R. J., 'Capital Market Theory—a Case Study in Methodological Conflict', *Journal of Business Finance and Accounting*, Vol. **9**, No. 4, 1982.

CAS | Google Scholar

Santos, T., and R. Veronesi, 'Labor Income and Predictable Stock Returns', *Review of Financial Studies*, Vol. **19**, 2006.

Web of Science® | Google Scholar

Savov, A., 'Asset Pricing with Garbage', *Journal of Finance*, Vol. **66**, No. 1, 2011.

Web of Science® | Google Scholar

Shiller, R. J., 'Do Stock Prices Move too Much to be Justified by Subsequent Changes in Dividends?', *American Economic Review*, Vol. **71**, No. 3, 1981.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

The Economist, ‘ Economics Focus: Data Birth’, 20–26 November 2010.

Google Scholar

Weston, J. F., ‘What MM Have Wrought’, *Financial Management*, Summer 1989.

Google Scholar

Citing Literature

Download PDF

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential