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Co-Kurtosis and Capital Asset Pricing

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Abstract

This paper examines the impact of co-kurtosis on asset pricing using a four-moment capital asset pricing model. It is shown that, in the presence of skewness and kurtosis in asset return distribution, the expected excess rate of return is related not only to the systematic variance but also to the systematic skewness and systematic kurtosis. Investors are compensated in higher expected return for bearing the systematic variance and the systematic kurtosis risks. Investors also forego the expected excess return for taking the benefit of increasing the systematic skewness.

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