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CAPM and APT Validation Test Before, During, and After Financial Crisis in Emerging Market: Evidence from Indonesia

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Abstract

Due to dynamic challenge in stock market risk and return measurement, financial practitioners and academics are quite concerned with the development of asset pricing studies. Moreover, validity of the existing theories in the recent Asian financial difficult years stimulates another challenge to the discipline.

This paper attempts to investigate the ability of CAPM and APT in explaining excess returns of portfolio of stocks traded in Jakarta Stock Exchange (JKSE). The study assesses validation of the theories using data from 3 different periods of the associated economic circumstances, i.e. pre-crisis period (1992-1997), crisis period (1997-2001), and post-crisis period (2001-2007).

Our finding shows that Beta is not the single factor that can explain the portfolio excess returns. At the same time, APT is proven to be able to vindicate the portfolio excess returns in the observation periods, in which the excess return averages are found to be consistently negative. We also find that spread is constantly significant variable, while risk-premiums vary over the observation periods.

Keywords: CAPM, APT, Financial Crisis[Suggested Citation](#) >[Show Contact Information](#) > Not Available for Download

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