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## The CAPM and Beta in an Imperfect Market

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Ramon P. DeGennaro (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=17288)

University of Tennessee, Knoxville - Department of Finance

Sangphill Kim (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=340860)

University of Massachusetts Lowell - Department of Finance

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### Abstract

The General Capital Asset Pricing Model (GCAPM) incorporates certain market imperfections (see Levy, 1978 and 1980). Levy concludes that in GCAPM equilibrium, all investors do not necessarily hold the market portfolio and that a security's own variance is priced. We show that financial intermediaries, responding to potential abnormal profits, relax an important GCAPM constraint. The introduction of intermediaries into the GCAPM leads to results not unlike those of the CAPM itself. If an asset's own variance affects its price, we conclude that this feature provides a major reason for the existence of financial intermediaries.

**Keywords:** Arbitrage, Pricing Kernel, Market Efficiency Hypothesis, Rational Learning, Option Valuation, Risk-Neutral Density, GCAPM, CAPM, intermediaries, market portfolio, systematic risk

**JEL Classification:** G1, G2, D5, E2, M5

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