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The Equity Premium in India

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In this article we examine the Equity Premium in the Indian context and review the related literature. The equity premium is the returned earned by a well-diversified stock portfolio in excess of that earned by a risk free security such as a Treasury Bill. Consistent with U.S. experience we find that the Indian equity premium has been quite high in the post 1991 period, averaging 9.7% above the corresponding risk free security. It is difficult to justify such a premium based on theoretical considerations.

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