A TEST OF THE CAPITAL ASSET PRICING MODEL IN THAILAND: EVIDENCE FROM A LARGE PANEL

BY

MR. NUTHASID RUKKIATWONG

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER DEGREE OF ARTS (ECONOMICS) (ENGLISH LANGUAGE PROGRAM) FACULTY OF ECONOMICS THAMMASAT UNIVERSITY ACADEMIC YEAR 2013 COPYRIGHT OF THAMMASAT UNIVERSITY
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This study attempts to re-investigate how well the Capital Asset Pricing Model (CAPM) describe the risks - returns relationship of the stocks listed in the Stock Exchange of Thailand (SET) as well as those listed in the Indonesia Stock Exchange (IDX), the Kuala Lumpur Stock Exchange (KLSE), the Philippine Stock Exchange (PSE) and the Singapore Stock Exchange (SGX) by means of time-series regressions employing the most exhaustive dataset available. Monte Carlo simulation experiments are designed to validate the reliability of the test. Using the most exhaustive datasets, the multivariate test proposed by Pesaran and Yamagata (2012) indicates that the market indices in the five markets are inefficient in mean-variance sense. By using alternative datasets, it is shown that the test of CAPM is sensitive to systematic exclusions of assets. At given the number of cross-sectional units available in this study, simulations shows that the multivariate test of CAPM due to Pesaran and Yamagata (2012) is reliable in term of both power and size. Having shown that the market indices of the five markets are inefficient in mean-variance sense, such indices can no long be used as efficient benchmarks for the purpose of managed portfolio performance evaluation or for the purpose of estimating cost of equity. The foundation for using CAPM in investment decision makings becomes precarious. Lastly, varying the length of sub-samples shows that testing CAPM using lengthy time-series is subjected to “averaging-out” effect – that is inefficiencies are averaged out so that become undetectable. Researcher should cautiously take “averaging-out” effect into considerations when designing testing procedures.