Lecture Notes 8

Index Models

I. Readings and Suggested Practice Problems

II. A Single Index Model

III. Why the Single Index Model is Useful?

IV. A Detailed Example

V. Two Approaches for Specifying Index Models

Buzz Words: Return Generating Model,
Zero Correlation Component of Securities Returns,
Statistical Decomposition of Systematic and Nonsystematic Risks,
Regression, Security Characteristic Line,
Historical (Raw and Adjusted) Beta.
I. Readings and Suggested Practice Problems

BKM, Chapter 10, Section 1 (Skim Section 4)

Suggested Problems, Chapter 10: 5-13