Lecture Notes 9

The Capital Asset Pricing Model (CAPM)

I. Readings and Suggested Practice Problems

II. Introduction: from Assumptions to Implications

III. The Market Portfolio

IV. Assumptions Underlying the CAPM

V. Portfolio Choice in the CAPM World

VI. The Risk-Return Tradeoff for Individual Stocks

VII. The CML and SML

VIII. “Overpricing”/“Underpricing” and the SML

IX. Uses of CAPM in Corporate Finance

X. Additional Readings

I. Readings and Suggested Practice Problems

BKM, Chapter 9, Sections 2-4.
Suggested Problems, Chapter 9: 2, 4, 5, 13, 14, 15

Web: Visit www.morningstar.com, select a fund (e.g., Vanguard 500 Index VFINX), click on Risk Measures, and in the Modern Portfolio Theory Statistics section, view the beta.