Risk-Return Relationship under Conditional CAPM with Time-Varying Beta: An Empirical Study on Thai Stocks

Abstract

The risk-return relationship under the conditional capital asset pricing model (conditional CAPM) is empirically tested here. According to this model, stock index is treated as the market return. It is stated that in a good stock market condition, we can expect higher return from higher risk securities. On the other hand, if the stock market is in a bad condition, higher risk securities should yield lower return. In addition, in this paper, the time-varying characteristic of the systematic risk represented by the stock-beta is also incorporated within the model. It is found that the conditional CAPM with time-varying beta can well explain the risk-return relationship of stocks in Thai's market during 2001-2009.

Keywords: Conditional CAPM, Time-varying beta, Kalman Filter