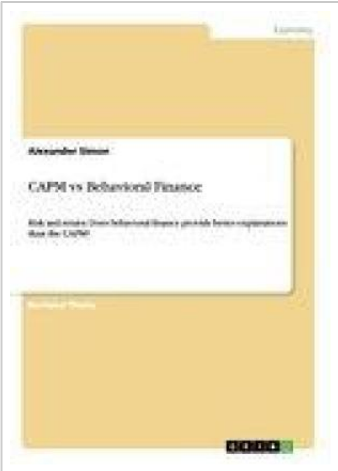

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CAPM vs Behavioral Finance

By Alexander Simon

Grin Verlag Jul 2012, 2012. Taschenbuch. Book Condition: Neu. 210x148x2 mm. This item is printed on demand - Print on Demand Titel. - Bachelor Thesis from the year 2007 in the subject Economics - Finance, grade: 7/10, Maastricht University, language: English, abstract: The chance to win is overestimated by all people. The chance to lose is underestimated by most people. was already formulated by the moral philosopher and famous economist Adam Smith in his book Wealth of Nations in 1776. Two centuries later the behavioural economist Daniel Kahneman confirmed the notion that in situations with uncertainty people are inclined to biased decision-making. Actual tests of the CAPM on stock data confirmed that the market premium as a single factor may be insufficient to explain stock returns completely. Stambough (1982) among many others found a positive relation between beta and average return, however, it was too flat and the intercept was greater than a risk-free bond1. Othereffects were observed that could not be explained by the market premium alone; these anomalies such as the size factor2, book-to-market (BTM) factor3 and momentum factor4 among others led to the development of more extensive models. These models were in some respects more...

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