

1086-62-349

Salilesh Mukhopadhyay* (smukhopadhyay@optonline.net), 8 Green Hill Road, Hackettstown, NJ 07840-5687. *Asymptotic Bayesian Analysis of The Capital Asset Pricing Model.*

One of the salient problems of modern financial economics is the quantification of the tradeoff between risk and expected return. The Capital Asset Pricing Model [CAPM] enables the economists to quantify risk and the reward for bearing it. Asymptotic Bayesian analysis is used to establish that the CAPM implies the expected return of an asset must be linearly related to the covariance of its return with the return of the market portfolio. Finally, the empirical Bayes approach is highlighted for large-sample statistical inference from CAPM and the new methodology for estimation and testing is presented. (Received August 23, 2012)