

**COMPARING THE CAPITAL ASSET PRICING
MODEL (CAPM) AND ARBITRAGE PRICING
THEORY (APT) ON STOCK RETURNS IN
PAKISTANI STOCK MARKET**



by

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ABSTRACT

The study is administered with an aim to overcome the gap in the fiction by presenting pragmatic statistics about the effectiveness of CAPM and APT in assessing the market returns of KSE listed companies. The secondary monthly data for analysis is retrieved from KSE website, yahoo finance, Statistical Bureau of Pakistan and B-recorder related to top 34 listed companies from each sector of Karachi Stock Exchange, being a representative of Pakistani Stock Market, for the period from 2008 to 2015. The study aims to explore the effects of single market return as well as of four different macro-economic factors i.e. Inflation, Oil Prices, Trade Balance and Exchange rate on Stock returns. Applying correlations, multiple regression analysis and CLRM, the result showed that CAPM doesn't seem to be an effective tool in volatile Pakistani Environment. On the other hand, coefficients of Inflation, Oil Prices and Exchange rates are found statistically significant but inflation has a negative impact on stock returns as found in many earlier studies. But the point to consider and for future research is that even with significant coefficients, coefficients of determination are not found to be very strong. This means that a very low percentage of change in stock return is explained by the assessed macro-economic factors and hence it can be concluded that although APT is an effective tool for assessing stock return, there can be many other firm-specific and macro-economic determinant of stock return.

Keywords: CAPM, APT, Macroeconomic Factors, Inflation, Oil Prices, Trade Balance, Exchange rate, CLRM

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