Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #30 List 1

Interrogatory

Ref: B1/T3/S1 p. B-18

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Test of CAPM

Request:

Can Ms McShane confirm in the tests of the CAPM referred to:

a) These tests estimate the CAPM assume a one month investment horizon;

b) Unlike Ms. McShane's estimates they use the one month Treasury Bill rate as the risk free rate and not the long Canada bond yield;

c) They use unadjusted betas and not adjusted betas.

d) Can Ms. McShane please provide any tests, equivalent to those discussed in this section, on the usefulness of the CAPM as applied by her with Long Canada bond yield and adjusted beats.

Response

a) Yes, the empirical studies assumed a one-month investment horizon.

b) Yes, the empirical studies used one-month Treasury bills.

c) Yes, the empirical studies used unadjusted betas.

d) Ms. McShane is not aware of any empirical studies that have used long term bonds and adjusted betas.