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Market Condition in Asset Pricing: Emerging Markets Application*

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Abstract

The main objective of this study is to investigate the standard CAPM model and this model based on higher moments of the return distribution for emerging market indices. The paper presents research verifying the pricing of emerging markets portfolios. In addition to the standard measure of risk, which is the beta coefficient, in this study a non-standard version of this model was proposed using comoments. Contrary to classic tests, conditional relations were also estimated taking into account the market condition. The unconditional models do not explain the cross-sectional variation in the realised returns. The conditional cross-sectional regressions both with the classic F-M procedure and with panel models demonstrate that the beta risk premium is significant and depend on market condition. The risk premium for co-skewness is statistically significant, but the direction of the relationship is opposite than expected. The analysis of the market risk premium also shows the presence of seasonality for some months.

Keywords: CAPM, Conditional Relations, Co-Skewness, Panel Models.

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