

Conditional Relationship Between Beta and Stock Returns in the Pakistan Stock Exchange

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Abstract

This paper investigates the conditional association between betas and returns in sample of 206 firms listed on the Pakistan Stock Exchange (PSX). The results of this study show that the relationship between betas and stock returns is flat when tested unconditionally. However, when the data is split between up and down-market weeks, then there exists a conditional relationship between risk and returns. The results support the view that beta is still a valid tool for risk measurement in an emerging market of Pakistan. This paper tests the robustness of the results by including several other measures of total and unsystematic risk such as variance, skewness, kurtosis and standard error alongside beta in the conditional CAPM regressions. These additional tests do not change our main conclusion.

Keywords: Conditional Relation, Beta, Stock Returns, Fama and MacBeth (1973), Up Market, Down Market, PSX, Pakistan