

Some Empirical Tests of the Arbitrage Pricing Theory Using Transformation Analysis

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Abstract

The purpose of this paper is to test the Arbitrage Pricing Theory (APT) using monthly data for Finnish stock returns during the 1970-1986 period. The first stage involves estimating the systematic risk for each asset using factor analysis. The second stage involves testing by transformation analysis if the number and structure of factors which influence the security returns remain unchanged across various time periods. The third stage involves testing the implications of the APT using cross-sectional regression analysis.

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