

On the Existence of Common Factors in the Arbitrage Pricing Model: International Evidence from US and Scandinavian Stock Markets

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Abstract

The purpose of this paper is to test the arbitrage pricing model (APM) using monthly data for US, Finnish and Swedish stock returns during the 1977-86 period. First, the intra-country stability of the factor patterns of the APM is researched in two exclusive subperiods. Second, the cross-sectional similarities of the factor patterns of twelve 30-stock samples collected from the three countries are investigated. Empirical evidence indicates the existence of two common factors. In addition, it is found that these factors are often produced in different order in different samples. Studying the association between the estimated factors and equilibrium returns indicates that for US and Swedish stocks one or two factors are priced, and for Finnish stocks only one factor is priced in the first subperiod.

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