ABSTRACT

Expected return is one of the most important economic variable in investment to be earned for taking on higher risk. Rational investors would accept greater risk only if the rate of return is high. The most basic investment risk premium considered is the Equity Risk Premium (ERP) which is the additional return expected to be earned in future from investing in riskier equities instead of safer securities. The study aims in determining ERP and the significance of various factors on it for India, an emerging economy. The paper discusses about the techniques used in general for estimation of ERP and how each of these methods is or not suitable. To check for the significance of the factors, monthly time series data has been used for the period between 2005 to 2015 for BSE 500 companies. Using the data and running relevant regressions it was found that there exists both short run and long run relationship between ERP and the factors which explains its importance as an important market variable in modern finance.

Keywords: Equity Risk Premium, Emerging markets, BSE 500.