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Required Market Risk Premium among countries in 2012

Pablo Fernandez*, Javier Aguirreamalloa, Isabel Fernandez Acín

IESE Business School, University of Navarra, Camino del Cerro del Aguila 3, 28023 Madrid, Spain

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Abstract

This paper contains the statistics of the Equity Premium or Market Risk Premium (MRP) used in 2012 for **82 countries**. We got 7192 answers for 93 countries, but we only report the results for 82 countries with more than 5 answers.

Most previous surveys have been interested in the Expected MRP, but this survey asks about the Required MRP. The paper also contains the references used to justify the MRP.

The great dispersion of the answers to the survey shows that the assumption of a representative investor (or homogeneous expectations …) has little to do with the real world.

This survey also links with the Equity Premium Puzzle. It may be explained by the fact that many market participants use historical data and advice from textbooks and finance professors. Consequently, ex-ante equity premia have been high, most market prices have been consistently undervalued, and the ex-post risk premia has been also high. Many investors use historical data and textbook prescriptions to estimate the required and the expected equity premium, the undervaluation and the high ex-post risk premium are self fulfilling prophecies.

Keywords: Equity premium; Required equity premium; Expected equity premium; Historical equity premium; Market risk premium

1. Market Risk Premium (MRP) used in 2012 in 82 countries

We sent a short email on May and June 2012 to about 21,500 email addresses of finance and economic professors, analysts and managers of companies obtained from previous correspondence, papers and webs of companies and universities. We asked about the Market Risk Premium (**MRP**) **used *"to calculate the required return to equity in different countries"***. Being Ke the required return to equity, R_F the risk-free rate and β the appropriate beta, $Ke = R_F + \beta\ MRP$. We also asked about "*Books or articles that I use to support this number*".

* Corresponding author.
E-mail addresses: fernandezpa@iese.edu (P. Fernandez), JAguirreamalloa@iese.edu (J. Aguirreamalloa), ifernandez.28@alumni.unav.es (I.F. Acín).

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Table 1
MRP used in 2012: 6014 answers.

	Professors	Analyst	Companies	Financial companies	Total
Answers reported (MRP figures)	**1611**	**1609**	**1901**	**1107**	**6228**
Outliers	18	2	53	7	**80**
Answers that do not provide a figure	202	101	246	335	**884**
Total	**1831**	**1712**	**2200**	**1449**	**7192**
Answers that do not provide a figure:					
Use a minimum IRR	12		*10*	*107*	129
Use multiples	26	27		*67*	120
"MRP is a concept that we do not use"			*97*	*22*	119
Use a Required Return to Equity	7	16	9	33	65
"Confidential. We don't disclose the assumptions"		16	2	30	48
"The CAPM is not very useful"	7		22	18	47
"I think about premia for particular stocks"	16	5	*9*	*15*	45
"I teach derivatives: I did not have to use a MRP"	43				43
"I use whatever MRP is specified in the textbook"	16				16
"The MRP changes every day", or "monthly"	2	9			11
"In my teaching I only use hypothetical numbers"	5				5
"I am an academic, not a practitioner"	5				5
Other reasons	63	28	97	43	231
SUM	202	101	246	335	884

By June 12, 2012, we had received 6308 specific MRP used in 2012.[1] Other 884 persons answered that they do not use MRP for different reasons (see Table 1). We would like to sincerely thank everyone who took the time to answer us.

Table 2 contains the statistics of the MRP used in 2012 **for 82 countries**. We got answers for 92 countries, but we only report the results for 82 countries with more than 6 answers.[2]

Figs. 1 and 2 are graphic representations of the MRPs reported in Table 2.

Table 2 reports the Market Risk Premium (**MRP**) used "to calculate the required return to equity in different countries".

Being Ke the required return to equity, R_F the risk-free rate and β the appropriate beta, $Ke = R_F + \beta\ MRP$.

2. Differences among professors, analysts and managers of companies

Table 3 shows the differences for the 53 countries that had at least 2 answers for each category (professors, analysts, managers of companies and managers of financial companies). Table 4 contains the difference of averages and standard deviations of the 3 groups considered.

3. Differences among respondents

Table 5 shows the differences in Market Risk Premium used by the same person for USA, Germany and UK: 215 respondents provided us with answers for USA and Germany; 111 provided us with answers for USA and UK (see Fig. 3).

4. References used to justify the MRP figure

Some respondents indicated which books, papers and others they use as a reference to justify the MRP that they use. Table 5 contains the most cited references.

[1] We considered 80 of them as outliers because they provided a very small MRP (for example, − 10% and 0 for the USA) or a very high MRP (for example, 30% for the USA).

[2] We got answers, but we do not report them here, for Angola, Haiti, Iceland, Latvia, Macedonia, Mozambique, Puerto Rico, Sri Lanka, Tunisia and. Ukraine.