

Journal of Hospitality Financial Management

The Professional Refereed Journal of the International Association of Hospitality Financial Management Educators

Volume 13 | Issue 1

Article 18

2005

Emperical Investigation of the CAPM vs. Fama-French Model: Evidence From the Lodging Industry

Melih Madanoglu

Michael D. Olsen

Francis A. Kwansa

Follow this and additional works at: <https://scholarworks.umass.edu/jhfm>

Recommended Citation

Madanoglu, Melih; Olsen, Michael D.; and Kwansa, Francis A. (2005) "Emperical Investigation of the CAPM vs. Fama-French Model: Evidence From the Lodging Industry," *Journal of Hospitality Financial Management*: Vol. 13 : Iss. 1 , Article 18.
Available at: <https://scholarworks.umass.edu/jhfm/vol13/iss1/18>

This AHFME Symposium Abstract is brought to you for free and open access by ScholarWorks@UMass Amherst. It has been accepted for inclusion in *Journal of Hospitality Financial Management* by an authorized editor of ScholarWorks@UMass Amherst. For more information, please contact scholarworks@library.umass.edu.

EMPIRICAL INVESTIGATION OF THE CAPM VS. FAMA-FRENCH MODEL: EVIDENCE FROM THE LODGING INDUSTRY

**Melih Madanoglu
Michael D. Olsen
and
Francis A. Kwansa**

Proper estimation of the cost of equity continues to be a challenge for business executives in their capital investment decisions. This is evidenced by the heated scholarly debate in the last two decades over the issue of what model should be used in estimating cost of equity capital. The present study empirically investigates two of the main cost of equity models in their capacity to explain the variability in the lodging stock returns. The results reveal that Fama-French model consistently outperforms the Capital Asset Pricing Model in its explanatory power of cross-sectional lodging industry portfolio returns for the examination periods of 1993-2002 and 1998-2002. In addition, the Fama-French model provides a more realistic cost of equity estimate by adjusting for size and financial distress of the lodging portfolio.