

- 1 **Q. Coyne Evidence: Please confirm that Mr. Coyne’s model predicts that the**
2 **market risk premium and the fair rate of return falls rather than increases during a**
3 **financial crisis? What is the intuition behind this result?**
4
- 5 A. The regression dummy variable simply removes the effect of the extraordinary decline in
6 the TSX of -33% and the S&P 500 of -37% in that year (see Exhibit JMC-1). This allows
7 the regression to focus on all the other observations in order to capture the risk
8 premium/bond yield relationship under more normal market conditions. Mr. Coyne does
9 not believe that the market risk premium declines in a financial crisis.