

- 1 **Q. Coyne Evidence: Please confirm that to the “untrained eye” the plot of the**  
2 **estimated market risk premium against the long Canada yield in JMC-7 appears to**  
3 **be flat at a zero risk premium.**  
4
- 5 A. Mr. Coyne is not able to confirm that the chart provided in Exhibit JMC-7 is a plot of the  
6 estimated market risk premium against the long Canada yield. The chart provided is  
7 instead a plot of the residuals from the regression equation against the Canada yield. The  
8 residuals are the difference between the actual historical values of the dependent variable  
9 and the values predicted by the model (i.e. the model fits). In a regression that includes a  
10 constant term, it is normal to expect the sum of the residuals to equal zero, which is why  
11 the trend line in the chart is flat at a residual of zero.