**Q. Reference: Dr. Booth Evidence, Page 51, Lines 1-2**

***"If the 1.30% spread of the preferred share yield over the A bond yield is added to the CCAPM estimate as a current "Operation Twist" adjustment similar to 2012 we get the following."***

**Please explain in detail why it is appropriate for Dr. Booth to use the "1.30% spread of the preferred share yield over the A bond yield" as the Operation Twist adjustment.**

A. The CAPM is an equilibrium where private investors trade off risk versus expected return. This results in a risk premium over the risk free rate. Currently the risk free rate, the government bond rate, is being determined by what RBC calls the global policy maker and not private investors. Currently Dr. Booth judges it necessary to determine what the correct risk free rate is in the risk return tradeoff, which is why Dr. Booth uses preferred shares as a proxy for a yield relatively less affected by central bank bond buying.

At its core the current problem is an identification problem, similar to that faced by Fischer Black "Capital Market Equilibrium with Restricted Borrowing," Journal of Business, (July 1972).