

1 **Q. Pg. 46 - Please explain whether you believe that adjustments made to the**
2 **standard CAPM formula result in making the formula less reliable.**

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4 **A.** Dr. Booth has not made an adjustment to the CAPM formula. He has simply used
5 adjustments to the parameters that enter into the formula consistent with current
6 financial and economic market conditions. Further he would not make an adjustment
7 that he would regard as making something less reliable. However, although the
8 credit spread should average out to zero over a full business cycle it does add more
9 volatility in the allowed ROE.