

# MEMORANDUM

---

TO: Blair Burkitt  
AER

FROM: John Handley  
University of Melbourne

DATE: 27 November 2008

RE: Supplement to Historical Equity Risk  
Premium

---



As requested, please find attached two tables which set out various statistics of the historical equity risk premium in Australia over a number of sample periods from January 1883 to December 2007 and over a number of sample periods from January 1883 to 15 October 2008, both assuming a gamma of 0.65. These additional tables supplement and should be read in conjunction with my earlier report to the AER entitled *“A Note on The Historical Equity Risk Premium.”*

<b>TABLE 8</b>							
<b>Historical Equity Risk Premium 1883 - 2007</b>							
Assumed Value of Imputation Credits		0.65					
<b>Panel A: Relative to Bills</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2007	125	<b>0.069</b>	0.014	0.041	0.097	0.00	0.057
1937 - 2007	71	<b>0.070</b>	0.023	0.026	0.115	0.00	0.053
1958 - 2007	50	<b>0.077</b>	0.031	0.017	0.138	0.01	0.055
1969 - 2007	39	0.064	0.036	-0.007	0.135	0.08	0.040
1980 - 2007	28	0.078	0.040	-0.004	0.161	0.06	0.057
1988 - 2007	20	<b>0.077</b>	0.033	0.007	0.146	0.03	0.066
<b>Panel B: Relative to 10 year Bonds</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2007	125	<b>0.066</b>	0.014	0.038	0.094	0.00	0.053
1937 - 2007	71	<b>0.064</b>	0.023	0.020	0.109	0.00	0.047
1958 - 2007	50	<b>0.072</b>	0.031	0.012	0.132	0.02	0.050
1969 - 2007	39	0.060	0.036	-0.010	0.131	0.09	0.036
1980 - 2007	28	0.077	0.040	-0.005	0.159	0.06	0.056
1988 - 2007	20	<b>0.075</b>	0.033	0.006	0.144	0.03	0.065
<b>Panel C: Relative to 5 year Bonds</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2007	..	..	..	..	..	..	..
1937 - 2007	..	..	..	..	..	..	..
1958 - 2007	..	..	..	..	..	..	..
1969 - 2007	39	0.062	0.036	-0.009	0.133	0.09	0.037
1980 - 2007	28	0.079	0.040	-0.003	0.160	0.06	0.058
1988 - 2007	20	<b>0.077</b>	0.033	0.008	0.146	0.03	0.067
<i>Note: Refer to report for data sources and variable definitions</i>							
<i>Estimates in Bold are significant at the 5% level using a 2-tailed test.</i>							

<b>TABLE 9</b>							
<b>Historical Equity Risk Premium 1883 - 2008</b>							
Assumed Value of Imputation Credits		0.65					
<b>Panel A: Relative to Bills</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2008	126	<b>0.066</b>	0.014	0.038	0.094	0.00	0.053
1937 - 2008	72	<b>0.065</b>	0.023	0.020	0.110	0.00	0.047
1958 - 2008	51	<b>0.069</b>	0.031	0.008	0.130	0.03	0.046
1969 - 2008	40	0.055	0.037	-0.017	0.126	0.14	0.029
1980 - 2008	29	0.064	0.041	-0.020	0.149	0.13	0.041
1988 - 2008	21	0.057	0.037	-0.020	0.135	0.14	0.043
<b>Panel B: Relative to 10 year Bonds</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2008	126	<b>0.063</b>	0.014	0.034	0.091	0.00	0.050
1937 - 2008	72	<b>0.059</b>	0.023	0.015	0.104	0.01	0.041
1958 - 2008	51	<b>0.065</b>	0.031	0.004	0.126	0.04	0.041
1969 - 2008	40	0.051	0.036	-0.020	0.123	0.16	0.026
1980 - 2008	29	0.064	0.041	-0.020	0.147	0.13	0.041
1988 - 2008	21	0.057	0.036	-0.018	0.133	0.13	0.044
<b>Panel C: Relative to 5 year Bonds</b>							
				95% Confidence Interval			
Period	Years	AM	SE	Low	High	p-value	GM
1883 - 2008	..	..	..	..	..	..	..
1937 - 2008	..	..	..	..	..	..	..
1958 - 2008	..	..	..	..	..	..	..
1969 - 2008	40	0.053	0.036	-0.019	0.124	0.15	0.027
1980 - 2008	29	0.065	0.041	-0.018	0.149	0.12	0.043
1988 - 2008	21	0.059	0.036	-0.017	0.135	0.12	0.046
<i>Note: Refer to report for data sources and variable definitions</i>							
<i>Estimates in Bold are significant at the 5% level using a 2-tailed test.</i>							