Summary

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"Studies on Interest-Rate Sensitivity of Listed Financial Service Companies –
a Review and Discussion on Alternative Interest-Rate Factors"

Empirical capital-market studies on share sensitivity to interest rates – especially referring to financial service companies – regularly draw on variations of a two-factor regression model that explains returns on shares using a market and an interest-rate factor. In the literature, this fundamental approach developed by Stone (1974) is subject to a number of variations that mainly hinge on the following four variants of the interest-rate factor used in assessing share sensitivity to interest rates: i) type of interest-rate factor (changes in interest rates vs. holding-period returns), ii) interest-rate period to be considered in the interest-rate factor, iii) treatment of correlation between market and interest-rate factor, and iv) the method in which the changes expected in the interest-rate factor are to be treated. This article will discuss degrees of freedom in this two-factor model – especially with regard to the resulting economic and econometric implications.