# Jowivilifiliverl ano ouniliane nulvels 

## JUNE 1977

## MICHAEL S. ROZEFF

The Association between Firm Risk and Wealth Transfers Due to Inflation
NESTOR GONZALES, ROBERT LITZENBERGER, AND JACQUES ROLFO On Mean Variance Models of Capital Structure and the Absurdity of Their Predictions

JOHN D. MARTIN AND ARTHUR J. KEOWN Interest Rate Sensitivity and Portfolio Risk<br>ANDREW H. CHEN<br>Portfolio Selection with Stochastic Cash Demand

STEVEN F. MAIER, DAVID W. PETERSON, AND JAMES W. VANDERWEIDE Monte Carlo Investigation of Characteristics of Optimal Geometric Mean Portfolios

JACK MEYER
Further Applications of Stochastic Dominance to Mutual Fund Performance
S. D. HODGES AND S. M. SCHAEFER

A Model for Bond Portfolio Improvement
JOHN J. BERNARDO AND HOWARD P. LANSER
A Capital Budgeting Decision Model with Subjective Criteria
ERWIN M. SANIGA AND JACK C. HAYYA
Simple Goodness-of-Fit Tests for Symmetric Stable Distributions
ROBERT A. SCHWARTZ AND DAVID K. WHITCOMB
Evidence on the Presence and Causes of Serial Correlation in Market Model Residuals

## DAVID A. BOWERS

A Warning Note on Empirical Research Using Foreign Exchange Rates
E. R. ARZAC

Utility Analysis of Chance-Constrained Portfolio Selection: A Correction

```
    A JOINT PUBLICATION
    OF THE
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
                    AND THE
WESTERN FINANCE ASSOCIATION
EDITORIAL STAFF
Graduate School of Business Administration
    University of Washington
Charles W. Haley, Managing Editor
Lynn Lewicki, Editorial Associate
```

ASSOCIATE EDITORS

Richard H. Bernhard,
North Carolina State Gerald O. Bierwag, Oregon William Breen, Northwestern Michael J. Brennan, UBC Andrew H. Chen, Ohio State Thomas R. Dyckman, Cornell Peter A. Frost, Washington Robert S. Hamada, Chicago Frank C. Jen, SUNY, Buffalo George Kaufman, Oregon Michael A. Klein, Indiana Alan Kraus, UBC

John G. McDonald, Stanford
Jacob B. Michaelsen, UC, Santa Cruz
Richard Pettit, Purdue
George E. Pinches, Missouri, Columbia
Gary G. Schlarbaum, Purdue
Clifford W. Smith, Jr., Rochester
Bernell K. Stone, Georgia Institute of Technology
Roger B. Upson, Minnesota
James Van Horne, Stanford
David A. Walker, Northwestern
Richard R. West, Dartmouth
G. A. Whitmore, McGill

Robert L. Winkler, Indiana

## WESTERN FINANCE ASSOCIATION

1976-77 Executive Committee

A. Blaine Huntsman, President<br>David H. Pyle, President-Elect-Program Chairman<br>Thomas E. Stitzel, Secretary-Treasurer<br>Charles W. Haley, Editor<br>John P. Herzog, Past President<br>Guilford C. Babcock<br>Michael J. Brennan<br>Nancy L. Jacob<br>Brian M. Neuberger<br>Keith V. Smith

University of Utah University of California, Berkeley

Boise State University University of Washington Simon Fraser University University of Southern California University of British Columbia University of Washington San Diego State University University of California, Los Angeles

## INSTITUTIONAL MEMBERS

California State College, Bakersfield Center for Business and Economic Research
Huntsman Chemical and Oil Corporation
Idaho State University
College of Business
Loyola Marymount University
College of Business Administration

Copyright 1977 by the Graduate School of Business Administration, University of Washington.

The Journal of Financial and Quantitative Analysis is published by the Graduate School of Business Administration, University of Washington, Seattle, Washington 98195, in conjunction with the Western Finance Association. Regular issues are published in March, June, September, and December, and a Proceedings Issue is published in November. Second-class postage is paid at Seattle, Washington.

The Proceedings Issue contains selected papers, abstracts of papers, discussants' comments, and the proceedings of the Western Finance Association meetings. From time to time a special issue, devoted to one topic of interest to the readership, is published.

The views and opinions expressed are those of the authors and do not necessarily reflect those of the Graduate School of Business Administration of the University of Washington nor of the Western Finance Association.

For individuals, the annual subscription rate to the JFQA is $\$ 12.50$ (threeyear rate, $\$ 33$ ); for firms or libraries, the annual rate is $\$ 20.00$ (three-year rate, $\$ 55$ ). Annual subscription rates for individuals and libraries outside the United States (except Canada) are $\$ 13.50$ for individuals (three-year rate, \$36), and $\$ 21$ for libraries and firms (three-year rate, \$58). Single copies are $\$ 4.00$, except for special issues, the price of which is $\$ 4.50$. The fiscal year of the Journal of Financial and Quantitative Analysis begins on January 1.

Manuscripts and $\$ 10$ submission fee (per manuscript) as well as editorial correspondence should be sent to the Managing Editor. Correspondence relating to advertising, subscriptions, and billing should be addressed: Subscription Manager, JFQA, University of Washington, DJ-10, Seattle, Washington 98195.

Correspondence pertaining to the Western Finance Association should be sent to Professor Thomas E. Stitzel, Secretary-Treasurer, School of Business Administration, Boise State University, 1910 University Blvd., Boise, Idaho 83725.
The Association between Firm Risk and Wealth
Transfers Due to Inflation ..... 151
Michael S. Rozeff
On Mean Variance Models of Capital Structure and the Absurdity of Their Predictions ..... 165Nestor Gonzales, Robert Litzenberger, and Jacques Rolfo
Interest Rate Sensitivity and Portfolio Risk ..... 181
John D. Martin and Arthur J. Keown
Portfolio Selection with Stochastic Cash Demand ..... 197Andrew H. Chen
Monte Carlo Investigation of Characteristics of Optimal Geometric Mean Portfolios ..... 215
Steven F. Maier, David W. Peterson, and James W. VanderWeide
Further Applications of Stochastic Dominance to Mutual Fund Performance ..... 235
Jack Meyer
A Model for Bond Portfolio Improvement ..... 243
S. D. Hodges and S. M. Schaefer
A Capital Budgeting Decision Model with Subjective Criteria ..... 261
John J. Bernardo and Howard P. Lanser
Simple Goodness-of-Fit Tests for Symmetric Stable Distributions ..... 276
Erwin M. Saniga and Jack C. Hayya
Evidence on the Presence and Causes of Serial Correlation in Market Model Residuals ..... 291
Robert A. Schwartz and David K. Whitcomb
A Warning Note on Empirical Research Using Foreign Exchange Rates ..... 315
David A. Bowers
Utility Analysis of Chance-Constrained Portfolio
Selection: A Correction ..... 321
E. R. ArzacAnnouncements324

