

# JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

JUNE 1970

NILS H. HAKANSSON

An Induced Theory of the Firm under  
Risk: The Pure Mutual Fund

JAMES GENTRY and JOHN PIKE

An Empirical Study of the Risk-Return Hypothesis Using  
Common Stock Portfolios of Life Insurance Companies

CHARLES E. EDWARDS and JAMES G. HILTON

Some Comments on Short-Run Earnings Fluctuation Bias

JOEL FRIED

Bank Portfolio Selection

GEORGE M. VON FURSTENBERG

Interstate Differences in Mortgage Lending Risks:  
An Analysis of the Causes

A. GEOFFREY LOCKETT and CYRIL TOMKINS

The Discount Rate Problem in Capital Rationing Situations:  
Comment

PETER LUSZTIG and BERNHARD SCHWAB

The Discount Rate Problem in Capital Rationing  
Situations: Reply

G. A. WHITMORE

Diversification and the Reduction of Dispersion: A Note

J. W. COLIN and RICHARD S. BAYER

Calculation of Tax Effective Yields for Discount  
Instruments

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
UNIVERSITY OF WASHINGTON  
SEATTLE, WASHINGTON 98105

EDITORIAL STAFF

Charles A. D'Ambrosio, Managing Editor  
Charles W. Haley, Associate Managing Editor  
Leslye Brueggeman, Editorial Assistant

BOARD OF EDITORS

Charles A. D'Ambrosio, Washington  
Fred P. Morrissey, UC, Berkeley  
Edward W. Reed, 1st National Bank  
of Oregon  
Ezra Solomon, Stanford  
J. Fred Weston, UCLA

ASSOCIATE EDITORS

William W. Alberts, Washington	Harry A. Latané, North Carolina
Marshall E. Blume, Pennsylvania	James C. T. Mao, British Columbia
Charles P. Bonini, Stanford	John C. McDonald, Stanford
Richard S. Bower, Dartmouth	Jacob B. Michaelsen, UC, Santa Cruz
William Breen, Purdue	Stewart C. Myers, MIT
Myles Delano, Michigan State	Alfred N. Page, Washington
Thomas R. Dyckman, Cornell	Richard Roll, Carnegie-Mellon
Robert C. Goshay, UC, Berkeley	R. Haney Scott, Washington
Nils H. Hakansson, UC, Berkeley	William F. Sharpe, UC, Irvine
Robert S. Hamada, Chicago	Keith V. Smith, UC, Los Angeles
Frederick S. Hammer	Roger B. Upson, Minnesota
Mark Hanna, Georgia	James Van Horne, Stanford
Austin C. Hoggatt, UC, Berkeley	Paul Wells, Illinois
James R. Jackson, UC, Los Angeles	Richard R. West, Cornell
Frank C. Jen, SUNY Buffalo	Robert L. Winkler, Indiana
Michael C. Jensen, Rochester	Donald Woods, UC, Los Angeles
Raymond J. Jessen, UC, Los Angeles	

The JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS is published in March, June, September, December, and January, by the Graduate School of Business Administration of the University of Washington in conjunction with the Western Finance Association. The December issue is a special issue devoted to one topic of interest to the JFQA's readership. The January issue contains selected papers, discussants' comments, and Proceedings of the Western Finance Association meetings.

Membership in the Western Finance Association is available at \$7.00 per year and includes the JOURNAL subscription. Applications and information concerning membership should be addressed to Virginia McKemie-Belt, Western Finance Association, California State College at Long Beach, Long Beach, California 90804. Make checks payable to the Western Finance Association.

For individuals, the annual subscription rate to the JFQA is \$7.00; for firms or libraries, the annual rate is \$10.00. Single copies are \$2.50, except the special issues, the price of which is \$3.00. Manuscripts and editorial correspondence should be sent to the Managing Editor. Advertising inquiries and books for review should be addressed to the Associate Managing Editor.

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 or of the Western Finance Association.

(Copyright 1970 by the Graduate School of Business Administration, University of Washington.)

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

Volume V, Number 2, June 1970

---

An Induced Theory of the Firm Under Risk: The Pure Mutual Fund . . . . .	155
<i>Nils H. Hakansson</i>	
An Empirical Study of the Risk-Return Hypothesis Using Common Stock Portfolios of Life Insurance Companies . . . . .	179
<i>James Gentry and John Pike</i>	
Some Comments on Short-Run Earnings Fluctuation Bias . . . . .	187
<i>Charles E. Edwards and James G. Hilton</i>	
Bank Portfolio Selection . . . . .	203
<i>Joel Fried</i>	
Interstate Differences in Mortgage Lending Risks: An Analysis of the Causes . . . . .	229
<i>George M. von Furstenberg</i>	

COMMUNICATIONS

The Discount Rate Problem in Capital Rationing Situations: Comment . . . . .	245
<i>A. Geoffrey Lockett and Cyril Tomkins</i>	
The Discount Rate Problem in Capital Rationing Situations: Reply . . . . .	261
<i>Peter Lusztig and Bernhard Schwab</i>	
Diversification and the Reduction of Dispersion: A Note . . . . .	263
<i>G. A. Whitmore</i>	
Calculation of Tax Effective Yields for Discount Instruments . . . . .	265
<i>J. W. Colin and Richard J. Bayer</i>	
December 1970 Special Issue . . . . .	275
Program of the 1970 WFA Meeting . . . . .	276