ABSTRACT

The impact of climate change on the financial markets is a growing concern for investors and regulators. Specifically, they are concerned that the markets have limited experience with climate change risks and may be unaware of the escalating dangers posed by climate change. Climate change is a source of systematic risk which is not priced and incorporated in the asset pricing model of finance in previous studies. These studies examine the impact of climate change risk on stock returns. The study's purpose is to determine whether climate change risk influences stock returns and to what extent climate change risk is incorporated in Asset Pricing Models. The study employs a measure of weather count as a proxy of climate change that has not been tested with CAPM and Carhart's four-factor model of finance in the previous study. This study examines the impact of climate change risk on stock returns. The study employs OLS and fixed effect regression to analyze the impact of Climate Change Risk on the Capital Asset Pricing Model and Carhart Four Factor Model. The result of the study concludes that climate change risk impact stock returns at a significant level and climate change risk is incorporated in Asset Pricing Models. The finding suggests that climate change is a risk that is exposed to firms and is priced in asset pricing models.