public with the services it needs?" The answer turns on the total capital and the total earnings of that capital.

But, however, to placate common practice, we have used a number of other measures in order to assure that our results are not sensitive to the particular definition, all these measures are reported in detail in the study which has been presented to you.

Having defined that the rate of return will be the rate of return on the total asets invested, we must now state in precise terms the statistical hypothesis we seek to test.

Formally, we can say we are constructing an equation, that was the way of describing the line that you have referred to that says, "industry return," the rate of return earned by an industry, is some linear function—as a first approximation—of "a" plus "b" times industry average risk: Industry return=a+b (industry risk).

We expect the coefficient "b" to be positive such that higher returns are associated with higher risks.

One should be cautious here that we are not just wrapping around and meeting our own tail in the end. We are not saying that because a firm has higher returns it is, therefore, risky.

Now, using two separate measures, one on the riskiness of the industry and another on its return, we test to see whether there is any such relationship. Once again the chart can help us.

(The chart referred to follows:)

RISK/RETURN PATTERN