Dans *Recherches* vous trouverez les résultats des plus récents des travaux sur les sujets qui nous intéressent en *Stratégies et Politiques Financières. Professeur Jacques Saint-Pierre*

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1. « A Positive Model of Earnings Forecasts: Top Down versus Bottom Up »


   BY: MASAKO N. DARROUGH

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   ABSTRACT:

   This article analyzes the behavior of two groups of corporate earnings forecasters: analysts, who follow individual company fortunes, and market strategists, who predict earnings for various company aggregates. Using data for two market indices, the S&P 500 and the Dow Jones Industrial Average, we document that bottom-up forecasts are systematically more optimistic than top-down forecasts made by strategists. This difference is not driven by the difference in the forecast target. This finding may be explained by the incentives that analysts face and/or by cognitive bias.

   JEL Classification: G14, G29, M41

2. « Institutional Allocation in Initial Public Offerings: Empirical Evidence »

   Journal of Finance, Forthcoming

   BY: REENA AGGARWAL

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   Stanford University
   National Bureau of Economic Research (NBER)

   ABSTRACT:

   We analyze institutional allocation in initial public offerings (IPOs) using a new dataset of US offerings between 1997 and 1998. We document a positive relation between institutional allocation and day 1 IPO returns: for instance, institutions get under 60% of overpriced issues but about 75% of underpriced issues. The positive relation is partly explained by the practice of giving institutions more shares in IPOs with strong pre-market demand, as predicted by book-building theories. However, our tests suggest that institutional allocation also contains private information about first-day IPO returns not reflected in pre-market demand and other public information. Our evidence supports book-building theories of IPO underpricing, but suggests that institutional allocation in underpriced issues is in excess of that explained by book-building alone.

   Keywords: IPOs; Allocations; Underpricing; Book-building

   JEL Classification: G14, G18, G24, G32
3. « Long-run Performance Following Private Placements of Equity »
   Journal of Finance, Forthcoming

   BY: JAMES S. LINCK
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   Terry College of Business
   MICHAEL HERTZEL
   Arizona State University
   Department of Finance
   MICHAEL L. LEMMON
   University of Utah
   David Eccles School of Business
   LYNN L. REES
   Texas A&M University
   Lowry Mays College & Graduate School of Business

   ABSTRACT:
   Public firms that place equity privately experience positive announcements effects, with negative post-
   announcement stock-price performance. This finding is inconsistent with the underreaction hypothesis. Instead, it
   suggests that investors are overoptimistic about the prospects of firms issuing equity, regardless of the method of
   issuance. Further, in contrast to public offerings, private issues follow periods of relatively poor operating
   performance. Thus, investor overoptimism at the time of private issues is not due to the behavioral tendency to
   overweight recent experience at the expense of long-term averages.

   Keywords: Long-run performance; Market efficiency; Private placements; Behavioral finance; Equity issues;
   Operating performance
   JEL Classification: G12, G14, G32

4. « Empirical Evidence on the Relation Between Stock Option Compensation
   and Risk Taking »
   Journal of Accounting & Economics, Vol. 33, No. 2, April 2002

   BY: SHIVARAM RAJGOPAL
   University of Washington
   School of Business Administration
   TERRY J. SHEVLIN
   University of Washington
   School of Business Administration

   ABSTRACT:
   We examine whether executive stock options (ESOs) provide managers with incentives to invest in risky projects. For a sample of oil and gas producers, we examine whether the coefficient of variation of future cash flows from exploration activity (our proxy for exploration risk) increases with the sensitivity of the value of the CEO’s options to stock return volatility (ESO risk incentives). Both ESO risk incentives and exploration risk are treated as endogenous variables by adopting a simultaneous equations approach. We find evidence that ESO risk incentives has a positive relation with future exploration risk taking. Additional tests indicate that ESO risk incentives exhibit a negative relation with oil price hedging in a system of equations where ESO risk incentives and hedging are allowed to be endogenously determined. Overall, our results are consistent with ESOs providing managers with incentives to mitigate risk-related incentive problems.

   JEL Classification: J33, M40, G31, G32
5. « Valuation of the Debt-Tax Shield »
Journal of Finance, Forthcoming
BY: DEEN KEMSLEY
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Columbia Business School

ABSTRACT:
In this study, we use cross-sectional regressions to estimate the value of the debt-tax shield. Recognizing that debt is correlated with the value of operations along nontax dimensions, we estimate reverse regressions in which we regress future profitability on firm value and debt rather than regressing firm value on debt and profitability. Reversing the regressions mitigates bias and facilitates the use of market information to control for differences in risk and expected growth. Our estimated value for the debt-tax shield is approximately 40 percent (ten percent) of debt balances (firm value), net of the personal tax disadvantage of debt. In addition, our estimates for the debt-tax shield vary across tax regimes and across firms in a predictable manner.

Keywords: Capital structure; Corporate taxes; Personal taxes; Debt-tax shield
JEL Classification: G12, G32, H24, H25

6. « Do Firms Use Restructuring Charge Reversals to Meet Earnings Targets? »
Accounting Review, April 2002
BY: STEPHEN R. MOEHLLE
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Department of Accounting

ABSTRACT:
Many firms that take restructuring charges reverse a portion of those restructuring charge accruals in a later quarter. These reversals increase net income, often substantially. In this study, I investigate whether restructuring charge reversals are associated with incentives to meet or exceed analysts’ forecasts, avoid earnings declines relative to prior-year levels, and avoid losses. I examine both the decision to record a reversal and the amount of the reversal, using a sample of 121 reversals recorded between 1990 and 1999. The results suggest that some firms record reversals to beat analysts’ forecasts and to avoid reporting net losses. There is also some evidence that firms record reversals to avoid earnings declines. Overall, the results are consistent with firms using restructuring accrual reversals to manage earnings.

Keywords: Accrual reversal; Earnings management; Earnings targets; Restructuring charge
JEL Classification: M41, G34, J41

7. « Accounting and Capital Markets: A Survey of the European Evidence »
The European Accounting Review, Vol. 11, No. 1, 2002
BY: PASCAL DUMONTIER
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BERNARD RAFFOURNIER
Universite de Geneve

ABSTRACT:
The relationship between accounting information and capital markets has been the subject of numerous studies, especially in the US. The purpose of this article is to examine the corresponding evidence in Europe. This review classifies the European literature into three groups: studies of the market reaction to newly released accounting
information, studies of the long-term association between stock returns and accounting numbers, studies devoted to the use of accounting data by investors and to the impact of market pressure on accounting choices. The paper reviews and summarises the main results related to each of these topics. It also addresses some methodological issues and provides suggestions for future research.

JEL Classification: G12, G14, M41, M43

8. « The Shielding of CEO Compensation from the Effects of Strategic Expenditures »
Contemporary Accounting Research, Forthcoming in the Summer Issue of 2002
BY: AUGUSTINE DURU
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RAGHAVAN J. IYENGAR
North Carolina Central University
School of Business
ALEX THEVARANJAN
Syracuse University

ABSTRACT:
This study investigates whether and why compensation committees shield CEO compensation from income-decreasing effects of strategic expenditures. We document that firms do shield recurring expenditures such as research and development and advertising expenditures. We also find that firms shield research and development expenditures more than advertising expenditures. Our results are consistent with prior findings that suggest that compensation committees shield CEOs from non-routine transactions such as restructuring charges and extraordinary losses. Using a two-task principal-agent framework, we show that such shielding improves the efficiency of the contract by making the shielded income measure more congruent with the principal’s objectives.

JEL Classification: J33, G34, M41, F23

BY: CHARLES M. C. LEE
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Johnson Graduate School of Management

ABSTRACT:
Much of capital market research in accounting over the past 20 years has assumed that the price adjustment process to information is instantaneous and/or trivial. This basic assumption has had an enormous influence on the way we select research topics, design empirical tests, and interpret research findings. In this discussion, I argue that price discovery is a complex process, deserving of more attention. I highlight significant problems associated with a naive view of market efficiency, and advocate a more general model involving noise traders. Finally, I discuss the implications of recent evidence against market efficiency for future capital market research in accounting.

JEL Classification: M41, G12, G14
10. « Institutional Ownership and the Extent to which Stock Prices Reflect Future Earnings »

Contemporary Accounting Research, Spring 2002

BY: JAMES J. JIAMBALVO
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SHIVARAM RAJGOPAL
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MOHAN VENKATACHALAM
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ABSTRACT:
Articles in the financial press suggest that institutional investors are overly focused on current profitability. This suggests that as institutional ownership increases, stock prices will reflect less current period information that is predictive of future period earnings. On the other hand, institutional investors are often characterized in academic research as sophisticated investors. Sophisticated investors should be better able to utilize current period information to predict future earnings compared to other owners. According to this characterization, as institutional ownership increases, stock prices should reflect more current period information that is predictive of future period earnings. Consistent with this latter view, we find that the extent to which stock prices lead earnings is positively related to the percentage of institutional ownership. This result holds after controlling for various factors that affect the relation between price and earnings. It also holds when we control for endogenous portfolio choices of institutions (e.g., institutional investors may be attracted to firms in richer information environments where stock prices tend to lead earnings). Further, a regression of stock returns on order backlog, conditional on the percentage of institutional ownership, indicates that institutional owners place more weight on order backlog compared to other owners. This is consistent with institutional owners using non-earnings information to predict future earnings. It also explains, in part, why prices lead earnings to a greater extent when there is a higher concentration of institutional owners.

JEL Classification: M41, M45, G12

11. « Goodwill Amortization and the Usefulness of Earnings »


BY: ROSS JENNINGS
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University of Illinois at Chicago
ROBERT B. THOMPSON
American University

ABSTRACT:
This study provides evidence of the effect of goodwill amortization on the usefulness of earnings data as an indicator of share value for a large sample of publicly traded companies over the 1993-98 period. This issue is of special interest because the Financial Accounting Standards Board recently adopted new accounting standards that eliminate the systematic amortization of goodwill in favor of a requirement to review goodwill for impairment when circumstances warrant. We found that earnings before goodwill amortization explain significantly more of the observed distribution of share prices than earnings after goodwill amortization and that when share valuations are based on earnings alone, goodwill amortization simply adds noise to the measure. These results suggest that eliminating goodwill amortization from the computation of net income will not reduce its usefulness to investors and analysts as a summary indicator of share value.

JEL Classification: M41, M44, G12

Professeur Jacques Saint-Pierre

Journal of Management Accounting Research, 2001

BY: MARY A. MALINA
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FRANK H. SELTO
University of Colorado at Boulder
Leeds School of Business

ABSTRACT:
This paper reports evidence on the effectiveness of the Balanced Scorecard (BSC) as a management-control and strategy communication device. This study first reviews management control and communication literatures that identify attributes of effective control and communication of strategy. Second, the study offers a model of control and communication applicable to the BSC. The study then analyzes empirical interview and archival data to model the use and assess the control and communication effectiveness of the BSC. The study includes data from multiple divisions of a large, international manufacturing company. Data are from BSC designers, administrators, and North American managers whose divisions are objects of the BSC. The study accumulates evidence regarding the challenges of designing and implementing the BSC faced by even a large, well-funded company. These findings may be generalizable to other companies adopting or considering adopting the BSC as a strategic and management control device.

Data indicate that this specific BSC, as designed and implemented, is an effective device for controlling corporate strategy. Results also indicate disagreement and tension between top and middle management regarding the appropriateness of specific aspects of the BSC as a communication, control and evaluation mechanism. Specific results include evidence of causal relations between effective management control, motivation, strategic alignment and beneficial effects of the BSC. These beneficial effects include changes in processes and improvements in both the BSC and customer-oriented services. In contrast, ineffective communication and management control cause poor motivation and conflict over the use of the BSC as an evaluation device.

Keywords: Balanced scorecard; Management control; Communication, qualitative analysis
JEL Classification: L20, M40, M46

13. « Were the Acquisitive Conglomerates Inefficient? »


BY: PETER G. KLEIN
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Department of Economics

ABSTRACT:
This article challenges the conventional wisdom that the 1960s conglomerates were inefficient. I offer valuation results consistent with recent event-study evidence that markets typically rewarded diversifying acquisitions. Using new data, I compute industry-adjusted valuation, profitability, leverage, and investment ratios for 36 large, acquisitive conglomerates from 1966 to 1974. During the early 1970s, the conglomerates were less valuable and less profitable than stand-alone firms, favoring an agency explanation for unrelated diversification. In the 1960s, however, conglomerates were not valued at a discount. Evidence from acquisition histories suggests that conglomerate diversification may have added value by creating internal capital markets.
14. « The Shareholder Wealth Maximization Norm and Industrial Organization »
   University of Pennsylvania Law Review, Vol. 149
   BY: MARK J. ROE
   Harvard Law School
   ABSTRACT:
   Industrial organization affects the relative effectiveness of the shareholder wealth maximization norm in maximizing total social wealth. In nations where product markets are not strongly competitive, a strong shareholder primacy norm fits less comfortably with social wealth maximization than elsewhere because, where competition is weak, shareholder primacy induces managers to cut production and raise price more than they otherwise would. Where competition is fierce, managers do not have that option. There is a rough congruence between this inequality of fit and the varying strengths of shareholder primacy norms around the world. In Continental Europe, for example, shareholder primacy norms have been weaker than in the United States. Historically, Europe’s fragmented national product markets were less competitive than those in the United States, thereby yielding a fit between their greater skepticism of the norm’s value and the structure of their product markets. As Europe’s markets integrate, making its product markets more competitive, pressure has arisen to strengthen shareholder norms and institutions.

15. « The Hold-Up Problem and Incomplete Contracts: A Survey of Recent Topics in Contract Theory »
   BY: PATRICK W. SCHMITZ
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   Department of Economics
   Document: Available from the SSRN Electronic Paper Collection:
   ABSTRACT:
   Contract theory is one of the most active fields of research in contemporary microeconomics. One of the reasons why it has been particularly popular in recent years may be the fact that many economists think that the incomplete contracts approach as pioneered by Grossman and Hart (1986) and Hart and Moore (1990) can help to answer important questions regarding the boundaries of the firm, which have been raised by Coase (1937) and more recently by Williamson (1985). In the meantime, the incomplete contract paradigm has been fruitfully applied to many relevant economic topics which are no longer restricted to the theory of the firm. However, several economic theorists still feel uncomfortable about important issues surrounding the incomplete contracts approach. Such concerns have lead some researchers to a renewed interest in the more traditional theory of complete contracts, which is closely related to the theory of implementation or mechanism design. This article complements existing surveys on contract theory in two ways. First, the surveys that I am aware of are of a quite technical nature and therefore difficult to access for readers who are not already specialists in the field. In contrast, while trying to be as rigorous as necessary, this paper presents all ideas verbally without any mathematical pyrotechnics. Second, instead of attempting to be exhaustive and to provide final answers, this paper is focused on some specific topics which received particular attention by researchers in recent years and puts emphasis on open questions that should be addressed in future research.

   Keywords: Incomplete contracts, hold-up problem, contract theory, property rights, theory of the firm
   JEL Classification: D23, D82, L14, L22

Professeur Jacques Saint-Pierre
ABSTRACT:

Stakeholding has been widely offered as a corrective to perceived defects of business ethics and corporate governance, and as a primary model of business and social responsibility. It is indeed now advocated so commonly as to have become a new orthodoxy. The purpose of this paper is to show that some of the most popular usages of ‘stakeholding’ are positively inimical to responsible conduct.

Two of usages of ‘stakeholding’ are commonplace and unobjectionable. The first is a conventional observation about motivation: people are more likely to take an interest in a process when they consider that they have a stake in its outcome; the stake need not be financial. The second innocuous usage is simply a reminder that the world is complex: many factors must ordinarily be considered when pursuing even ostensibly simple outcomes. This is a basic truth that successful businesses have long understood and respected.

There is, however, a third usage of ‘stakeholding’ that is advocated by modern proponents of stakeholder theory: this characteristic usage is not about motivation, or functional relationships, but about entitlements. Adding force to the conventional notions, its central tenet is that organisations, and particularly businesses, must do more than just take their stakeholders into account. It maintains that organisations must instead be accountable to all their stakeholders, and that the proper objective of management is to balance their competing interests. It is this third usage of stakeholding that is being challenged here.

Far from being a source of improvements, this most distinctive stakeholder doctrine is fundamentally misguided, incapable of providing better corporate governance, business performance or business conduct. It is intrinsically incompatible with business and all other substantive objectives, and systematically subverts rather than supports both social and business responsibility. Entitlement stakeholding undermines both private property and accountability; it can be used to rationalise almost any kind of government intervention, no matter however intrusive or restrictive.

Fortunately, a better model of business ethics and social responsibility is available. Unlike stakeholder theory, the Ethical Decision Model of Elaine Sternberg’s JUST BUSINESS:


JUST BUSINESS shows that when properly understood, ‘social responsibility’ is not a responsibility « to » stakeholders, but a responsibility « of » stakeholders. As ‘conscientious stakeholding’, it consists of the strategic bestowal or withholding of support for social and economic institutions on the basis of stakeholders’ values.

Keywords: stakeholder theory, stakeholding, corporate governance, business ethics, social responsibility, corporate social responsibility, ethical investment, value maximisation, balanced scorecard, multiple objectives, social welfare, corporate purpose, tradeoffs, special interest groups.
17. « Financial Contracting »
Forthcoming in Journal of Economic Literature

BY: OLIVER HART
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National Bureau of Economic Research (NBER)

ABSTRACT:
This paper discusses how economists’ views of firms’ financial structure decisions have evolved from treating firms’ profitability as given; to acknowledging that managerial actions affect profitability; to recognizing that firm value depends on the allocation of decision or control rights. The paper argues that the decision or control rights approach is useful, even though it is at an early stage of development, and that the approach has some empirical content: it can throw light on the structure of venture capital contracts and the reasons for the diversity of claims.

Keywords: Financial contracting, decision rights, control Rights

18. « Platforms and Real Options in Industrial Organization »

BY: KEN’ICHI IMAI
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ABSTRACT:
We need a robust theory to analyse the dynamics of new industrial organizations that are being created by the explosion of information technology. This paper sets out a new theoretical perspective and suggests a new empirical framework towards formulating such a theory. The new conceptual tools of analysis presented here include the « platform » as a key element of new market structures, « real options » analysis to deal with genuine uncertainty, and an understanding of a new form of competition that takes place among different platforms.

JEL Classification: L10, L12, L15, D81

19. « Takeover Defenses of IPO Firms »
Journal of Finance, Forthcoming

BY: LAURA CASARES FIELD
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School of Business Administration
ABSTRACT:
Many firms deploy takeover defenses when they go public. We find that IPO managers are more likely to deploy defenses when their compensation is high, shareholdings are small, and oversight from non-managerial shareholders is weak. The presence of a takeover defense at the time of the IPO is negatively related to subsequent acquisition likelihood, yet has no impact on takeover premiums for firms that are acquired. These results do not support arguments that takeover defenses facilitate the eventual sale of the IPO firm at high takeover premiums. Rather, they suggest that managers shift the cost of takeover protection onto non-managerial shareholders. Thus, agency problems are important even for firms at the IPO stage.

Keywords: Initial Public Offerings, Takeover Defenses, Acquisitions

JEL Classification: G30, G32, G34, G24

20. « Understanding the Determinants of Managerial Ownership and the Link Between Ownership and Performance »

BY: CHARLES P. HIMMELBERG
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National Bureau of Economic Research (NBER)
DARIUS PALIA
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ABSTRACT:
Both managerial ownership and performance are endogenously determined by exogenous (and only partly observed) changes in the firm’s contracting environment. We extend the cross-sectional results of Demsetz and Lehn (1985) and use panel data to show that managerial ownership is explained by key variables in the contracting environment in ways consistent with the predictions of principal-agent models. A large fraction of the cross-sectional variation in managerial ownership is explained by unobserved firm heterogeneity. Moreover, after controlling both for observed firm characteristics and firm fixed effects, we cannot conclude (econometrically) that changes in managerial ownership affect firm performance.

JEL Classification: G3

Journal of Finance, February 2002

BY: MALCOLM P. BAKER
Harvard Business School
JEFFREY WURGLER
Yale SOM ICF (Visting 2001)
NYU Stern School of Business

ABSTRACT:
It is well known that firms are more likely to issue equity when their market values are high, relative to book and past market values, and to repurchase equity when their market values are low. We document that the resulting effects on capital structure are very persistent. As a consequence, current capital structure is strongly related to past market values. The results suggest the theory that capital structure is the cumulative outcome of past attempts to time the equity market.

Keywords: capital structure, market timing, ipo, seo
22. « Do Relationships Have Limits? Banking Relationships, Financial Constraints and Investment »

BY: JOEL F. HOUSTON
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CHRISTOPHER M. JAMES
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Department of Finance, Insurance & Real Estate

ABSTRACT:
Using detailed information on the debt structure of 250 publicly traded U.S. firms over the 1980-93 period, we find that the sensitivity of investment to internally generated funds increases with a firm’s reliance on bank financing. Bank-dependent firms also hold larger stocks of liquid assets and have lower dividend payout rates. However, the greater cash sensitivity of investment for bank-dependent firms arises only for the largest capital expenditures (relative to assets). For most levels of investment spending, bank-dependent firms appear to be slightly less cash-flow constrained than firms with access to public debt markets.

23. « The Long-Run Performance Following Dividend Initiations and Resumptions: Underreaction or Product of Chance? »
Forthcoming in Journal of Finance

BY: RODNEY D. BOEHME
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Bauer College of Business

ABSTRACT:
We examine the long-term stock performance following the initiation and resumption of stock dividends during the period from 1927 to 1998. We show that the post-announcement abnormal returns are significantly positive for equally weighted calendar time portfolios, but become insignificant when the portfolios are value-weighted. Moreover, the equally weighted results are confined to firms who initiate or resume dividends during the period from 1964 to 1998. We find no evidence of abnormal returns prior to 1964.

We provide a rational explanation for the post-1964 positive price drift, after observing significant declines in the loadings of the three Fama and French risk factors during the post-announcement period. Cross-sectionally, we find that firm-specific price drifts are negatively related to contemporaneous changes in the three factor loadings: firms with the highest reduction in loadings are also the ones with the most positive simultaneous abnormal performance. In general, for any random sample, declines in risk factor loadings are associated with positive abnormal returns, due to a combination of unexpected strong firm performance and reductions in the corporate cost of equity. This suggests that the positive price drift observed in this paper may be a sample-specific result of chance.

Our paper makes an important methodological contribution: we caution future researchers of long-term anomalies to be aware of situations in which the price drift is in the opposite direction of any concurrent post-announcement changes in the loadings of the three Fama-French risk factors. In such instances, the chance explanation is quite plausible and must be carefully considered as a viable alternative to the more common behavioral interpretation.

Keywords: Long-term event studies, market efficiency, dividend policy
JEL Classification: G14

Professeur Jacques Saint-Pierre
24. « An EBIT-Based Model of Dynamic Capital Structure »
Journal of Business, Vol. 74, No. 4, October 2001

BY: ROBERT S. GOLDSTEIN
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John M. Olin School of Business
NENGHU JU
University of Maryland
Robert H. Smith School of Business
University of California at Berkeley
HAYNE E. LELAND
University of California at Berkeley
Haas School of Business

ABSTRACT:
A model of dynamic capital structure is proposed. Even though the optimal strategy is implemented over an arbitrarily large number of restructuring periods, a scaling feature inherent in the framework permits simple closed-form expressions to be obtained for equity and debt prices. When a firm has the option to increase future debt levels, tax advantages to debt increase significantly, and both the optimal leverage ratio range and predicted credit spreads are more in line with what is observed in practice.

25. « Capital Structure in Corporate Spin-offs »
Journal of Business, Forthcoming

BY: AMY K. DITTMAR
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Kelley School of Business, Bloomington

ABSTRACT:
This paper investigates how firms determine the capital structure of a subsidiary that is divested in a spin-off. In a spin-off, the parent divides the assets of the firm and chooses the capital structure for the new, stand-alone entity. Unlike the firms in other capital structure studies, the subsidiary’s leverage ratio is its initial capital structure. Thus, the typical explanations for why firms’ leverage ratios may deviate from their target ratios do not apply. I therefore use this sample to investigate how firms determine their capital structure. I find that the subsidiary has a leverage ratio lower than the parent but similar to a comparable non-spin-off firm. Also, similar to other firms, the subsidiary’s leverage is negatively related to growth and positively related to its collateral value. However, unlike other firms, leverage is not inversely related to profitability. Further, the difference between the subsidiaries’ and comparable firms’ leverage ratios is positively related to profitability. These results support the predictions of the trade off theory of capital structure and provide insight into why previous studies find a negative relation between leverage and profitability.

Keywords: Spin-off; Capital structure; Leverage; Divestiture
JEL Classification: G34, G32

26. « Stock Market Volatility and Economic Factors »
Review of Quantitative Finance and Accounting

BY: JOHN J. BINDER
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Department of Finance
MATTHIAS J. MERGES
Lucent Technologies

Professeur Jacques Saint-Pierre
ABSTRACT:
This paper examines the ability of rational economic factors to explain stock market volatility. A simple model of the economy under uncertainty identifies four determinants of stock market volatility: uncertainty about the price level, the riskless rate of interest, the risk premium on equity and the ratio of expected profits to expected revenues in the economy. In initial tests these variables have significant explanatory power and account for over 50 per cent of the variation in market volatility from 1929 to 1989. When the regression coefficients are allowed to vary over time using the Spath cluster regression, the four factors explain over 90 per cent of the variation in market volatility. The results are useful in explaining the past behavior of stock market volatility and in forecasting future volatility.

Keywords: Stock market volatility
JEL Classification: G0, G4

27. « Price Uncertainty and Corporate Value »
Journal of Corporate Finance, Forthcoming

BY: DAVID HAUSHALTER
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RANDALL ALLEN HERON
Indiana University
ERIK LIE
College of William and Mary

ABSTRACT:
This study examines the sensitivity of equity values of oil producers to changes in the uncertainty of future oil prices. We document that this sensitivity is negatively correlated with a firm’s debt ratio and its production costs. These results indicate that companies that are more likely to experience financial distress or underinvestment from low cash flows are adversely affected by increases in the uncertainty of future cash flows. We conclude that corporate risk management can increase shareholder value by reducing the expected costs of financial distress and underinvestment.

Keywords: Risk management, Financial distress, underinvestment, oil producers, Hedging
JEL Classification: G32, G30

28. « The Use of Foreign Currency Derivatives and Firm Market Value »
Review of Financial Studies

BY: GEORGE S. ALLAYANNIS
Darden Graduate School of Business
JAMES WESTON
Rice University
Jones Graduate School of Management

ABSTRACT:
This paper examines the use of foreign currency derivatives (FCDs) by a sample of 720 large U.S. nonfinancial firms between 1990 and 1995 and its potential impact on firm value. Using Tobin’s Q as an approximation of a firm’s market valuation, we find a positive relationship between firm value and the use of FCDs. The hedging premium is statistically and economically significant mostly after 1993 and is on average 5.7% of firm value. This
result is robust to a) controls for size, profitability, leverage, growth opportunities, ability to access financial markets, industrial and geographical diversification, credit quality, industry classification (4-digit SIC), year-dummies and firm fixed-effects; b) the use of a weight-adjusted industry Tobin’s Q and other measures of value, such as the market to book and the market to sales ratios; and, c) alternative estimation techniques that handle the potential impact of outliers. Using the ratio of foreign currency derivatives to foreign sales as a proxy for the percentage of exposure that a firm hedges, we observe a significant dispersion in our measure of the hedge ratio. In univariate tests we find a nonlinear relationship between Q and our proxy. However, firm-specific factors explain this relationship in multivariate tests and it appears that firms are hedging optimally.

JEL Classification: G15, G30