

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

Finance 423

Corporate Financial Policy & Control

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Quiz #3: Wednesday, April 23, 1997

(10 points)

The evidence in Asquith and Mullins' paper indicates that firms announce stock offerings after their stock price has risen abnormally, at the announcement there is a drop in price, and after the announcement the abnormal price increase stops.

(a) Does this indicate that managers stop the run-up in their firm's stock price by announcing an equity offering?

(b) Does it mean that managers are good market timers, in the sense that they can tell when the stock price has 'peaked out', so they sell at the peak?

(c) Does the drop in stock price at the announcement mean that managers are doing something that makes their old stockholders worse off?

(d) Does the negative reaction to the announcement of an equity offering imply that managers should have used a debt offering, where the interest payments are tax-deductible for corporate income taxes?