Default Risk Cannot Explain the Muni Puzzle: Evidence from Municipal Bonds that are Secured by U.S. Treasury Obligations Get access >

Abstract

Fama (1977) and Miller (1977) predict that one minus the corporate tax rate will equate after tax yields from comparable taxable and tax-exempt bonds. Empirical evidence shows that long-term tax-exempt yields are higher than theory predicts. Two popular explanations for this empirical puzzle are that, relative to taxable bonds, municipal bonds bear more default risk and include costly call options. I study U.S. government secured municipal bond yields which are effectively default-free and noncallable. These municipal yields display the same tendency to be too high. I conclude that differential default risk and call options do not explain the municipal bond puzzle.

Issue Section: Article

You do not currently have access to this article.

Sign in 🛈 Get help with access

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches

Institutional access

🏛 Sign in through your institution

Sign in through your institution

Purchase

Subscription prices and ordering for this journal

Purchasing options for books and journals across Oxford Academic

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? Register

Default Risk Cannot Explain the Muni Puzzle: Evidence from Municipal Bonds that are Secured by U.S. Treasury Obligations - 24 Hours access

EUR €51.00   GBP £44.00   USD $55.00

Rental

This article is also available for rental through DeepDyve.