# Are There Economies of Scale in Underwriting Fees? Evidence of Rising External Financing Costs  Get access >

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## Abstract

This study examines the behavior of spreads paid in firm underwritten seasoned common stock offerings and straight bond offerings. Estimates indicate that up to 85% of the spread is variable cost and that the marginal spread is rising. Further, offerings that are likely to require greater underwriting services encounter higher marginal spreads. These findings are consistent with there being a family of U-shaped spreads, with lower quality offerings priced on higher spreads, unlike the economies of scale view of spreads. They agree with the views that underwriters provide valuable services and that the marginal cost of external finance is rising.

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