

Shareholder gains from callable-bond refundings

Douglas R. Emery, Wilbur G. Lewellen

First published: 1990

<https://doi.org/10.1002/mde.4090110108>

Accessibility issue? [Request accessibility update.](#)



Abstract

A re-examination indicates that current procedures for measuring the benefit realized by shareholders when a firm calls and refunds an outstanding debt obligation are mis-specified. The key to a proper measurement is found to lie in the identification of the extinguished remaining-time-to-maturity value of the exercised option on the called debt. A simple procedure for assessing that value is provided and incorporated into a corrected measure of the gains from a callable-bond refunding.

References

A. Barnea, R. Haugen and L. Senbet (1980). A rationale for debt maturity structure and call provisions in the agency theoretic framework. *Journal of Finance* 35, December, 1223-34.

[Web of Science®](#) | [Google Scholar](#)

Z. Bodie and R. Taggart (1978). Future investment opportunities and the value of the call provision on a bond. *Journal of Finance* 33, September, 1187-1200.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

W. Boyce and A. Kalotay (1979b). Tax differentials and callable bonds. *Journal of Finance* 34, September, 825–38.

[Web of Science®](#) | [Google Scholar](#)

M. Brennan and E. Schwartz (1977). Savings bonds, retractable bonds, and callable bonds. *Journal of Financial Economics* 5, August, 67–88.

[Web of Science®](#) | [Google Scholar](#)

I. Brick and B. Wallingford (1985). The relative tax benefits of alternative call features in corporate debt. *Journal of Financial and Quantitative Analysis* 20, March, 95–105.

[Web of Science®](#) | [Google Scholar](#)

K. Dunn and C. Spatt (1984). A strategic analysis of sinking fund bonds. *Journal of Financial Economics* 13, September, 399–423.

[Web of Science®](#) | [Google Scholar](#)

E. Elton and M. Gruber (1972). The economic value of the call option. *Journal of Finance* 27, September, 891–901.

[Web of Science®](#) | [Google Scholar](#)

D. Emery and W. Lewellen (1984). Refunding non-callable debt. *Journal of Financial and Quantitative Analysis* 19, March, 73–82.

[Web of Science®](#) | [Google Scholar](#)

J. Finnerty (1986). Refunding discounted debt: a clarifying analysis. *Journal of Financial and Quantitative Analysis* 21, March, 95–106.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

W. Lewellen and D. Emery (1981). On the matter of parity among financial obligations. *Journal of Finance* 36, March, 97–111.

[Web of Science®](#) | [Google Scholar](#)

W. Lewellen and A. Rosenfeld (1987). Optimal bond refunding strategies. *Managerial and Decision Economics* 8, September 243–50.

[Web of Science®](#) | [Google Scholar](#)

M. Livingston (1980). Bond refunding reconsidered: comment. *Journal of Finance* 35, March, 191–5.

[Web of Science®](#) | [Google Scholar](#)

M. Livingston (1987). Measuring the benefit of a bond refunding: the problem of nonmarketable call options. *Financial Management* 16, Spring, 38–40.

[Web of Science®](#) | [Google Scholar](#)

A. Ofer and R. Taggart (1977). Bond refunding: a clarifying analysis. *Journal of Finance* 32, March, 21–30.

[Web of Science®](#) | [Google Scholar](#)

G. Pye (1966). The value of a call option on a bond. *Journal of Political Economy* 74, March–April, 200–205.

[Web of Science®](#) | [Google Scholar](#)

S. Schaefer and E. Schwartz (1987). Time-dependent variance and the pricing of bond options. *Journal of Finance* 42, December, 1113–28.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) 

[Google Scholar](#) 

J. Yawitz and J. Anderson (1977). The effect of refunding on shareholder wealth. *Journal of Finance* 32, June, 1738-46.

[Web of Science®](#) 

[Google Scholar](#) 

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential