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Article

Shareholder gains from callable-bond refundings

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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.

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