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Journal of Financial Research / Volume 37, Issue 3 / pp. 357-384

Original Article

CULTURAL DISTANCE AND BOND PRICING: EVIDENCE IN THE YANKEE AND RULE 144A BOND MARKETS

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First published: 02 September 2014

https://doi.org/10.1111/jfir.12040

We are grateful to the associate editor (Andy Naranjo) and Eastern Finance Association 2014 conference participants for valuable comments and constructive suggestions.

PDF

Abstract

In this article we examine the impact of cultural distance on the pricing of corporate bonds issued in the United States. We find that greater cultural differences between U.S. investors and foreign issuers increase the cost of debt. We also find that the cost of Rule 144a offers is less sensitive to cultural distance and creditor protection effects because of the different market structure and investor bases in the Yankee and Rule144a bond markets. Our results suggest that cultural differences influence bond pricing through an information asymmetry channel.

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