

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

Hui Zhu, Kelly Cai

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.

## References

Ball, R. T., L. Hail, and F. P. Vasvari, 2013, Equity cross-listings in the U.S. and the price of debt, Paper presented at the CELS 2009 4th Annual Conference on Empirical Legal Studies.

[Google Scholar](#)

Cai, K., X. Jiang, and H. Lee, 2013, Debt IPO waves, investor sentiment, market conditions, and issue quality, *Journal of Financial Research* 36, 425-53.

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

Chui, A. C. W., and C. C. Y. Kwok, 2008, National culture and life insurance consumption, *Journal of International Business Studies* 39, 88–101.

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

Chui, A. C. W., S. Titman, and K. C. J. Wei, 2010, Individualism and momentum around the world, *Journal of Finance* 65, 361–92.

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

Canyon, M., W. Judge, and M. Ussem, 2011, Corporate governance and the 2008–2009 financial crisis, *Corporate Governance: An International Review* 19, 399–404.

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

Derrien, F., G. Hilary, A. Kecskes, and S. A. Mansi, 2012, Information asymmetry, credit events and the cost of debt, Working paper, INSEAD.

[Google Scholar](#)

Diamond, D. W. 1989, Reputation acquisition in debt markets, *Journal of Political Economy* 97, 828–62.

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

Djankov, S., R. La Porta, F. Lopez-de-Silanes, and A. Shleifer, 2008, The law and economics of self-dealing, *Journal of Financial Economics* 88, 430–65.

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

Djankov, S., C. McLiesh, and A. Shleifer, 2007, Private credit in 129 countries, *Journal of Financial Economics* 84, 299–329.

[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

Fama, E. F., and K. R. French, 1997, Industry costs of equity, *Journal of Financial Economics* 43, 153–93.

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

Fan, J. P. H., S. Titman, and G. Twite, 2012, An international comparison of capital structure and debt maturity choices, *Journal of Financial and Quantitative Analysis* 47, 23–56.

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

Gao, Y. 2011, The Sarbanes-Oxley Act and the choice of bond market by foreign firms, *Journal of Accounting Research* 49, 933–68.

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

Giannetti, M., and Y. Yafeh, 2012, Do cultural differences between contracting parties matter? Evidence from syndicated bank loans, *Management Science* 58, 365–83.

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

Giddy, I. 1994, *Global Financial Markets* (D.C. Heath, Lexington, MA).

[Google Scholar](#)

Hackbarth, D. 2008, Managerial traits and capital structure decisions, *Journal of Financial and Quantitative Analysis* 43, 843–81.

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

Halov, N., and F. Heider, 2011, Capital structure, risk and asymmetric information, *Quarterly Journal of Finance* 1, 767–809.

[Google Scholar](#)

Han, S., T. Kang, S. Salter, and Y. K. Yoo, 2010, A cross-country study on the effects of national culture on

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

Kogut, B., and H. Singh, 1988, The effect of national culture on the choice of entry mode, *Journal of International Business Studies* 19, 411–32.

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

Kwok, C. C. Y., and S. Tadesse, 2006, National culture and financial systems, *Journal of International Business Studies* 37, 227–47.

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

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny, 1997, Legal determinants of external finance, *Journal of Finance* 52, 1131–50.

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

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny, 1998, Law and finance, *Journal of Political Economy* 106, 1113–55.

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

La Porta, R., F. Lopez-de-Silanes, A. Schleifer, and R. W. Vishny, 2000, Investor protection and corporate governance, *Journal of Financial Economics* 58, 3–27.

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

Li, K., D. Griffin, H. Yue, and L. Zhao, 2013, How does culture influence corporate risk-taking? *Journal of Corporate Finance* 23, 1–22.

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

Mansi, S. A., W. F. Maxwell, and D. P. Miller, 2011, Analyst forecast characteristics and the cost of debt, *Review of Accounting Studies* 16, 116–42.

[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](#) 

---

Miller, D. P., and N. Reisel, 2012, Do country-level investor protections affect security-level contract design? Evidence from foreign bond covenants, *Review of Financial Studies* 25, 408–38.

[Web of Science®](#) 

[Google Scholar](#) 

---

Morosini, P., S. Shane, and H. Singh, 1998, National cultural distance and cross-border acquisition performance, *Journal of International Business Studies* 29, 137–58.

[Web of Science®](#) 

[Google Scholar](#) 

---

Qi, Y., L. Roth, and J. Wald, 2010, Political rights and the cost of debt, *Journal of Financial Economics* 95, 202–26.

[Web of Science®](#) 

[Google Scholar](#) 

---

Qian, J., and P. E. Strahan, 2007, How laws and institutions shape financial contracts: The case of bank loans, *Journal of Finance* 62, 2803–34.

[Web of Science®](#) 

[Google Scholar](#) 

---

Rajan, R. G., and L. Zingales, 1998, Financial dependence and growth, *American Economic Review* 88, 559–86.

[Web of Science®](#) 

[Google Scholar](#) 

---

Raudenbush, S. W., and A. S. Bryk, 2002. *Hierarchical Linear Models: Applications and Data Analysis Methods*, Advanced Quantitative Techniques in the Social Science Series (Sage, Thousand Oaks, CA).

[Google Scholar](#) 

---

Stulz, R. 1999, Globalization, corporate finance, and the cost of capital, *Journal of Applied Corporate Finance* 12, 8–25.

[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



### 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](#)

[Wiley Press Room](#)

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](#)