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## Sailing in Rough Water: Market Volatility and Corporate Finance

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### Abstract

This paper examines how market volatility affects corporate financing transactions. Firms face substantial uncertainty with respect to the price, demand, and aftermarket costs associated with raising public capital. The ability to hedge this risk effectively is critical to the efficient financing of firms' capital needs. Using monthly U.S. equity-related financing transactions from 1970 to 1998, I find that market volatility dampens financing transactions, particularly among small or unseasoned firms. Periods of above-normal market volatility are associated with a significant 13 percent decline in the frequency of IPO transactions and a 21 percent decline in the number of IPO dollars raised. Increased market volatility generates greater underwriting fees, but does not affect IPO underpricing. The findings are most consistent with Mandelker and Raviv's (1977) model of costly distribution risk-bearing.

**Keywords:** Equity Offerings, Market Volatility, Underwriting, Underpricing**JEL Classification:** G14, G24, G32[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID412160\\_code030528590.pdf?abstractid=412160&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID412160\\_code030528590.pdf?abstractid=412160&mirid=1&type=2\)](#)

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