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# Issuers' credit risk and pricing of warrants in the recent financial crisis

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## Abstract

### Purpose

The purpose of this paper is to investigate whether factor sensitivities of margins of bank-issued warrants depend on issuers' credit risk during the period of economic turmoil between January 2008 and June 2010.

### Design/methodology/approach

Therefore, first, Fama-MacBeth estimations were applied and it was demonstrate that the sensitivities of margins in terms of time to maturity and moneyness vary substantially over time; the average outcomes are similar to the results of classical pooled estimations.

### Findings

Then, time-series tests were used and it was found that the steepness of the issuers' credit default swap (CDS) spread curves correlates negatively with the time-to-maturity sensitivities as well as with the explanatory power of Fama-MacBeth estimations.

### Research limitations/implications

These findings indicate that the life-cycle hypothesis is weakened when the issuers' CDS spread curves become steeper.

### Originality/value

Thus, this study offers a new approach to gain insights into the role of issuers' credit risk on price setting behavior.



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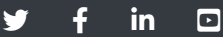
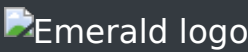
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