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Evidence on the issuer effect in warrant overpricing

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Abstract

Prior literature has shown that warrant prices of
matched firms are higher than the premium,
hedging firms are more likely to have nations
suggest that the issuer effect is significant
issuer effect is significant and the existence of
existence of significant issuer effect is significant
significant issuer effect is significant and the
importance of the issuer effect is significant

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Acknowledgements

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Notes

¹ Institutional details described in this section about warrants and options traded on the ASX are taken from ASX ([2000](#)).

² Their other two proxies relate to whether trading was floor- or electronic-based and to whether options traders were obliged to make a market. Neither of these distinctions remain relevant in the prices tested in this study.

³ Results are not sensitive to using the standard deviation over the past 30 days as an alternative measure of volatility. Both volatility measures are similar having a correlation of 0.91. The exponentially-weighted moving average model was chosen as it places higher weight on more recent observations and is therefore likely to be a better measure of current volatility.

⁴ $F = (S - d)(1 + r)^T$, where S is underlying price, d is present value of cash dividends, r is interest rate and T is time to maturity.

⁵ Volumes reported in the market have to be adjusted to be consistent. First the warrant volume is adjusted for the conversion ratio. Second the option volume is adjusted to recognise

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equal to five.

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