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The optimal call policy for convertible bonds: Is there a market memory effect?

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Abstract

This article examines the market memory effect in convertible bond markets. We look at the pricing of convertible bonds issued after the original issuer redeemed previous issues without giving an opportunity for investors to benefit from bond value appreciation. We find evidence that the market underprices new convertible bond issues of firms that called their previous convertible bonds early compared with new convertibles bonds of firms that called their previous convertibles late.

Keywords:

convertible bonds | optimal call policy | market memory

JEL Classification:

G12 | G30

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