The European Journal of Finance ›
Volume 24, 2018 - Issue 4

Original Articles

A theory of mandatory convertibles: distinct features for large repeated financing

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Pages 347-362 | Received 29 Jan 2016, Accepted 17 Jan 2017, Published online: 02 Feb 2017

Cite this article https://doi.org/10.1080/1351847X.2017.1285337 Check for updates

ABSTRACT

In recen ... ns of raising capital, ... to investiga ... s can be an efficient ... s compared to other ... and capped capital a ... achieve efficie

KEYWO

Mandatory ... ation

JEL CLASS

G32 G3

Acknowledgements

We gratefully acknowledge the helpful comments and suggestions from two referees.

Disclosure statement

No potential conflict of interest was reported by the author.

Notes

1 Given the distribution function of the project output , the distribution function F of output is , where is the probability of an event. If is random, all the results hold except that F is replaced by the joint distribution function of . We can also allow the randomness of to be resolved earlier or later than .

2 We follow the incomplete-contract approach proposed by Grossman and Hart (1986). Refer to their paper on the concepts of 'a variable being ex ante nonverifiable but ex post obs st renegoti

3 Adding ical complica per.

4 We wil ued function and y is be well defin e disco egral (Horst 1984).

5 Here, e two MCs issued a ling). Hence, is the to iginal sharehol stock, the firm may investors'

total income from the equity share should be . Hence, a reader can simply assume no dividends on common stock. However, if there is a random stock in the second period, the timing of a dividend payment is relevant and it reflects risk sharing, which would force us to specify dividends on common stock explicitly.