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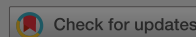
A theory of mandatory convertibles: distinct features for large repeated financing

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ABSTRACT

In recent years, the amount of capital raised through public offerings has declined significantly. This paper investigates the reasons for this decline and shows that the decline is due to the increasing cost of capital and the decreasing efficiency of capital markets. The paper also shows that the decline in capital raised is not due to the increasing cost of capital and the decreasing efficiency of capital markets.

KEYWORDS

Mandatory

JEL CLASSIFICATION

G32

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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 observable' and 'renegotiation'.

3 Adding complications to the model is not our goal in this paper.

4 We will assume that y is well defined and y is well defined. The integral (Horst [1984](#)).

5 Here, we assume that the two MCs are identical (Hence, the original stock, the firm may be owned by 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.

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