"Competitive Bids and Post-Issuance Price Performance in the Municipal Bond Market"

Prof. Daniel Bergstresser

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Abstract

In this paper we undertake the first joint investigation of bidding in the primary market and trading in the immediate post-issuance secondary market for municipal bonds. We introduce a ‘distance-to-next-bid’ measure – the distance by which the winning underwriter’s bid exceeded the next highest (non-winning) bid in the primary market. We document a winners’ curse effect: bonds where the distance-to-next-bid is lower see larger price increases (over the reoffering price) in the post-issuance secondary market. This winners’ curse effect appears to vary significantly across time, being lower at the peak of the financial crisis. It also appears to vary by bond type, being higher in bonds sold with original issue discount.