ABSTRACT

This dissertation investigates the effect of equity issues on stock prices. The announcement day price effect predicted by various theories can be grouped into three categories:

No Price Effect: Consistent with

Close substitutes - efficient markets hypotheses.

Negative price effect: Consistent with

(1) Downward sloping demand for a firm's shares.

(2) Capital structure hypotheses and tax effects.

(3) Information effects associated with the sale of equity by insiders and agency theory effects.

(4) Large transaction costs associated with equity issues.

Positive price effect: Consistent with

(1) Favourable information effect associated with investment.

(2) Value enhancing reduction in financial leverage (financial distress costs).

Various studies in the US markets reveal that the price of a stock drops immediately after the announcement of the issue offering. This dissertation studies the effect of the issue on the stock returns during the announcement period, announcement to issue period, and in the post issue period. The effect of various firm-related and issue-related factors on the returns is also investigated.

It is found that the stock price in the secondary market drops a little immediately following the announcement, and falls considerably after the issue offer is closed. Issue and