

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

March 1980

MORATORIUM ENDS

FRED D. ARDITTI AND KOSE JOHN
Spanning the State Space with Options

RICHARD J. RENDLEMAN, JR., AND BRIT J. BARTTER
The Pricing of Options on Debt Securities

R. W. WHITE AND P. A. LUSZTIG
The Price Effects of Rights Offerings

ROBERT A. HAUGEN AND DEAN W. WICHERN
The Term of a Risk-Free Security

WAYNE Y. LEE, TERRY S. MANESS, AND DONALD L. TUTTLE
Nonspeculative Behavior and the Term Structure

W. W. HIGGINS AND B. J. MOORE
Market Structure versus Information Costs as Determinants of Underwriters' Spreads on Municipal Bonds

RICHARD G. HARRIS
A General Equilibrium Analysis of the Capital Asset Pricing Model

GORDON J. ALEXANDER AND NORMAN L. CHERVANY
On the Estimation and Stability of Beta

GABRIEL A. HAWAWINI
Intertemporal Cross-Dependence in Securities Daily Returns and the Short-Run Intervaling Effect on Systematic Risk

SON-NAN CHEN
Time Aggregation, Autocorrelation, and Systematic Risk Estimates—Additive versus Multiplicative Assumptions

TERRY DIELMAN, TIMOTHY J. NANTELL, AND ROGER L. WRIGHT
Price Effects of Stock Repurchasing: A Random Coefficient Regression Approach

GERSHON FEDER
A Note on Debt, Assets, and Lending under Default Risk

RICHARD H. BERNHARD
A Simplification and an Extension of the Bernhard-de Faro Sufficient Condition for a Unique Non-Negative Internal Rate of Return

MARVIN J. KARSON AND TERRENCE F. MARTELL
On the Interpretation of Individual Variables in Multiple Discriminant Analysis

RICHARD H. PETTWAY
Potential Insolvency, Market Efficiency, and Bank Regulation of Large Commercial Banks

Preliminary Program of the 15th Annual Conference of the Western Finance Association

MORATORIUM ENDS

The *Journal* is again open for business. Our reviewers' desks are clear (at least of *JFQA* manuscripts) and we have space available in the December 1980 issue.

We are sincerely anxious to consider your latest manuscript for publication. You can be certain it will receive careful consideration and a speedy response.

Thank you for your patience while the *Journal* eliminated its large backlog of forthcoming manuscripts. We can now all look forward to stimulating, timely reading.

Robert C. Higgins
Managing Editor

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

A JOINT PUBLICATION

OF THE

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

UNIVERSITY OF WASHINGTON

AND THE

WESTERN FINANCE ASSOCIATION

POLICY ADVISORY COMMITTEE

Guilford C. Babcock
Charles A. D'Ambrosio
Donald E. Farrar
Alan Kraus
William F. Sharpe
Seha M. Tinic

EDITORIAL STAFF

Robert C. Higgins, Managing Editor
Marty Auvil, Editorial Associate
University of Washington

ASSOCIATE EDITORS

Richard H. Bernhard, North Carolina State	Barr Rosenberg, Berkeley
Gerald O. Bierwag, Oregon	Gary G. Schlarbaum, Purdue
Andrew H. Chen, Ohio State	Clifford W. Smith, Jr., Rochester
Peter A. Frost, Washington	Bruno H. Solnik, CESA,
Robert S. Hamada, Chicago	Jouy-en-Josas, France
Frank C. Jen, SUNY, Buffalo	Bernell K. Stone, Georgia Institute
George Kaufman, Oregon	of Technology
Michael A. Klein, Indiana	James Van Horne, Stanford
Cheng-few Lee, Illinois	David A. Walker, Federal Deposit
John G. McDonald, Stanford	Insurance Corporation
Richard Pettit, Houston	Richard R. West, Dartmouth
George E. Pinches, Kansas	Robert L. Winkler, Indiana

WESTERN FINANCE ASSOCIATION

1979-80 Executive Committee

Donald E. Farrar, President	University of Utah
Charles A. D'Ambrosio, President-Elect	University of Washington
James C. Van Horne, Vice President	Stanford University
D. Stuart Bancroft, Secretary-Treasurer	Pacific Lutheran University
Guilford C. Babcock, Past President	University of Southern California
Robert C. Higgins, Editor	University of Washington
Thomas E. Stitzel	Boise State University
George N. Engler	California State University
Alan Kraus	University of British Columbia
William F. Sharpe	Stanford University

INSTITUTIONAL MEMBERS

University of Calqary, Faculty of Business	Loyola Marymount University
California State College, Bakersfield	College of Business Administration
Center for Business/Economic Research	University of Southern California
University of California, Berkeley	Graduate School of Business
School of Business Administration	Administration
University of California, Los Angeles	University of Utah
Study Center for Finance and	Department of Finance
Business Economics	First Security Corporation
	Salt Lake City, Utah

CORPORATE SPONSORS

Security Pacific National Bank	Los Angeles, California
Wells Fargo Bank	San Francisco, California
Transamerica Corporation	San Francisco, California
Bank of America	San Francisco, California
Huntsman Chemical & Oil Corporation	Salt Lake City, Utah
Mattel, Inc.	Hawthorne, California
Gifford Fong Associates	Santa Monica, California

Copyright 1980 by the Graduate School of Business Administration,
University of Washington

The *Journal of Financial and Quantitative Analysis* is published by the Graduate School of Business Administration, University of Washington, Seattle, Washington, 98195, in conjunction with the Western Finance Association. Regular issues are published in March, June, September, and December, and a Proceedings Issue is published in November. Second-class postage is paid at Seattle, Washington.

The Proceedings Issue contains selected papers, abstracts of papers, discussants' comments, and the proceedings of the Western Finance Association meetings. From time to time a special issue, devoted to one topic of interest to the membership, is published.

The views and opinions expressed are those of the authors and do not necessarily reflect those of the Graduate School of Business Administration of the University of Washington nor of the Western Finance Association.

For individuals, the annual subscription rate to the *JFQA* is \$17.50 (three-year rate, \$47.50); for firms or libraries, the annual rate is \$25.00 (three-year rate \$70). Annual subscription rates for individuals and libraries outside the United States (except Canada) are \$18.50 for individuals (three-year rate \$50.50), and \$26.00 for libraries and firms (three-year rate, \$73). Single copies are \$5.00. The fiscal year of the *Journal of Financial and Quantitative Analysis* begins on January 1.

Manuscripts and \$25 submission fee per manuscript (\$15 for W.F.A. members) as well as editorial correspondence, should be sent to the Managing Editor. Correspondence relating to advertising, subscriptions, and billing should be addressed: Subscription Manager, *JFQA*, University of Washington, DJ-10, Seattle, WA 98195.

Correspondence pertaining to the Western Finance Association should be sent to Mr. D. Stuart Bancroft, Secretary-Treasurer, School of Business Administration, Pacific Lutheran University, Tacoma, WA 98447.

Spanning the State Space with Options	1
<i>Fred D. Arditti and Kose John</i>	
The Pricing of Options on Debt Securities	11
<i>Richard J. Rendleman, Jr., and Brit J. Bartter</i>	
The Price Effects of Rights Offerings	25
<i>R. W. White and P. A. Lusztig</i>	
The Term of a Risk-Free Security	41
<i>Robert A. Haugen and Dean W. Wichern</i>	
Nonspeculative Behavior and the Term Structure	53
<i>Wayne Y. Lee, Terry S. Maness, and Donald L. Tuttle</i>	
Market Structure versus Information Costs as Determinants of Underwriters' Spreads on Municipal Bonds	85
<i>W. W. Higgins and B. J. Moore</i>	
A General Equilibrium Analysis of the Capital Asset Pricing Model	99
<i>Richard G. Harris</i>	
On the Estimation and Stability of Beta	123
<i>Gordon J. Alexander and Norman L. Chervanv</i>	
Intertemporal Cross-Dependence in Securities Daily Returns and the Short-Run Intervaling Effect on Systematic Risk	139
<i>Gabriel A. Hawawini</i>	
Time Aggregation, Autocorrelation, and Systematic Risk Estimates--Additive versus Multiplicative Assumptions	151
<i>Son-Nan Chen</i>	
Price Effects of Stock Repurchasing: A Random Coefficient Regression Approach	175
<i>Terry Dielman, Timothy J. Nantell, and Roger L. Wright</i>	
A Note on Debt, Assets and Lending under Default Risk	191
<i>Gershon Feder</i>	
A Simplification and an Extension of the Bernhard-deFaro Sufficient Condition for a Unique Non-Negative Internal Rate of Return	201
<i>Richard H. Bernhard</i>	
On the Interpretation of Individual Variables in Multiple Discriminant Analysis	211
<i>Marvin J. Karson and Terrence F. Martell</i>	

Potential Insolvency, Market Efficiency, and Bank Regulation of Large Commercial Banks	219
<i>Richard H. Pettway</i>	
Announcements	237
Preliminary Program of the 15th Annual Conference of the Western Finance Association.	239