



JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

A PUBLICATION OF THE
UNIVERSITY OF WASHINGTON
SCHOOL OF BUSINESS ADMINISTRATION
IN COOPERATION WITH THE
UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS AND
NEW YORK UNIVERSITY
LEONARD N. STERN SCHOOL OF BUSINESS

VOL. 41, NO. 2, JUNE 2006

Yield Spreads as Alternative Risk Factors for Size and Book-to-Market . . . 245
Jaehoon Hahn and Hangyong Lee

The Cross Section of Stock Returns before World War I 271
Richard S. Grossman and Stephen H. Shore

The Sources of Debt Matter Too 295
Yang Liu

Top Management Incentives and the Pricing of Corporate Public Debt 317
Hernan Ortiz-Molina

**The Economic Impact of Corporate Capital Expenditures: Focused Firms
versus Diversified Firms 341**
Sheng-Syan Chen

Firm Growth and Disclosure: An Empirical Analysis 357
Inder K. Khurana, Raynolde Pereira, and Xiumin Martin

**Stock Returns, Implied Volatility Innovations, and the Asymmetric Volatility
Phenomenon 381**
Patrick Dennis, Stewart Mayhew, and Chris Stivers

**Earnings Management and Stock Performance of Reverse Leveraged
Buyouts 407**
De-Wai Chou, Michael Gombola, and Feng-Ying Liu

Dividend Smoothing and Debt Ratings 439
Varouj A. Aivazian, Laurence Booth, and Sean Cleary

Short-Sale Constraints, Differences of Opinion, and Overvaluation 455
Rodney D. Boehme, Bartley R. Danielsen, and Sorin M. Sorescu

MANAGING EDITORS

Hendrik Bessembinder
University of Utah

Stephen Brown
New York University

Paul Malatesta
University of Washington

ASSOCIATE EDITORS

Warren Bailey
Cornell University

Gurdip Bakshi
University of Maryland

Geert Bekaert
Columbia University

Jeffrey Coles
Arizona State University

Pierre Collin-Dufresne
University of California, Berkeley

Jennifer Conrad
University of North Carolina

Wayne Ferson
Boston College

Robert Goldstein
University of Minnesota

Mark Grinblatt
University of California, Los Angeles

Jarrad Harford
University of Washington

Jonathan Karpoff
University of Washington

Michael Lemmon
University of Utah

Francis Longstaff
University of California, Los Angeles

Ananth Madhavan
Barclays Global Investors

Ronald Masulis
Vanderbilt University

John McConnell
Purdue University

Robert McDonald
Northwestern University

Wayne Mikkelson
University of Oregon

Neil Pearson
University of Illinois,
Urbana-Champaign

George Pennacchi
University of Illinois,
Urbana-Champaign

Jeffrey Pontiff
Boston College

Matthew Richardson
New York University

Jay Ritter
University of Florida

Bryan Routledge
Carnegie Mellon University

Pedro Santa-Clara
University of California, Los Angeles

Paul Schultz
University of Notre Dame

Chester Spatt
Carnegie-Mellon University

Hans Stoll
Vanderbilt University

Pietro Veronesi
University of Chicago

Ralph Walkling
Drexel University

Ivo Welch
Brown University

David Yermack
New York University

Guofu Zhou
Washington University in St. Louis

STAFF: **Martha (Marty) Auvil**, Editor
Susan Huot, Office Manager

The Journal of Financial and Quantitative Analysis (ISSN 0022-1090), School of Business Administration, University of Washington, 115 Lewis, Box 353200, Seattle, WA 98195-3200, is published quarterly in March, June, September, and December by the University of Washington School of Business Administration in cooperation with the David Eccles School of Business at the University of Utah and the Leonard N. Stern School of Business at New York University. POSTMASTER: Send address changes to Journal of Financial and Quantitative Analysis, School of Business Administration, University of Washington, Seattle, WA 98195-3200. Periodicals postage is paid at Seattle, Washington.

Copyright 2006, School of Business Administration, University of Washington

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

PHONE: (206) 543-4598
 FAX: (206) 616-1894
 E-MAIL: jfqa@u.washington.edu
 URL: <http://www.jfqa.org>

University of Washington
 School of Business Administration
 115 Lewis Box 353200
 Seattle, WA 98195-3200 USA

VOL. 41, NO. 2, JUNE 2006

PURPOSE AND FOCUS

The Journal of Financial and Quantitative Analysis (JFQA) publishes theoretical and empirical research in financial economics. Topics include corporate finance, investments, capital and security markets, and quantitative methods of particular relevance to financial researchers.

Opinions expressed in the JFQA are those of the authors and do not necessarily reflect those of the University of Washington School of Business Administration.

For specific information concerning subscriptions, submissions, single-copy orders, missing issues, permission to reprint, or advertising, write, call, fax, or e-mail the JFQA office.

SUBMISSIONS

It is JFQA policy to give prompt attention to all submitted manuscripts. Consistent with this policy, honoraria are paid to referees who provide timely reviews. Send manuscripts via e-mail in PDF, Word, or LaTeX with a \$200 submission fee for subscribers (\$270 for non-subscribers) to the Managing Editors. Checks must be payable to the JFQA in U.S. dollars for deposit in a U.S. bank. VISA, MasterCard, and American Express are accepted. Manuscripts are considered for publication on the understanding that they have not been previously published in whole or in part, and are not being simultaneously considered for publication elsewhere.

SUBSCRIPTIONS

Subscriptions, which must be prepaid and renewed annually, start with the next available issue unless otherwise requested. Checks or money orders must be payable to the JFQA in U.S. dollars for deposit in a U.S. bank. VISA, MasterCard, and American Express are accepted. Use the subscription form at the back of this issue or print the form from the JFQA Web site. Upon request, electronic subscriptions are available in PDF files. Claims for missing issues must be made within six months of the date of publication.

Annual Subscription Fees:

Library or Firm	U.S. \$150
Outside U.S.A.	U.S. \$160
Individual	U.S. \$70
Outside U.S.A.	U.S. \$80
Student (with verification)	U.S. \$25
Outside U.S.A.	U.S. \$30
Airmail (additional)	U.S. \$40