

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

March 1972

PAPERS AND PROCEEDINGS OF THE
SEVENTH ANNUAL MEETING OF THE
WESTERN FINANCE ASSOCIATION

Simon-Fraser University
Burnaby, British Columbia

August 30-31, 1971

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

A JOINT PUBLICATION
OF THE
WESTERN FINANCE ASSOCIATION
AND THE
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
UNIVERSITY OF WASHINGTON
SEATTLE, WASHINGTON 98195

EDITORIAL STAFF

Charles W. Haley, Managing Editor
Nancy L. Jacob, Associate Managing Editor
Lynn Lewicki, Editorial Assistant

BOARD OF EDITORS

Charles W. Haley, Washington
Fred P. Morrisey, UC, Berkeley
Edward W. Reed, U.S. National Bank
of Oregon
Ezra Solomon, Stanford
J. Fred Weston, UCLA

ASSOCIATE EDITORS

Richard H. Bernhard, North Carolina State	John G. McDonald, Stanford
Marshall E. Blume, Pennsylvania	Jacob B. Michaelsen, UC, Santa Cruz
Charles P. Bonini, Stanford	Stewart C. Myers, MIT
Richard S. Bower, Dartmouth	Alfred N. Page, Washington
William Breen, Northwestern	Richard Roll, Carnegie-Mellon
Myles Delano, Michigan State	R. Haney Scott, Washington
Thomas R. Dyckman, Cornell	William F. Sharpe, Stanford
Robert C. Goshay, UC, Berkeley	Keith V. Smith, UC, Los Angeles
Nils H. Hakansson, UC, Berkeley	Roger B. Upson, Minnesota
Robert S. Hamada, Chicago	James Van Horne, Stanford
Frederick S. Hammer, Integrated Systems	George von Furstenberg, Indiana
Mark Hanna, Georgia	Paul Wells, Illinois
Frank C. Jen, SUNY, Buffalo	Richard R. West, Cornell
Michael C. Jensen, Rochester	Robert L. Winkler, Indiana
Henry A. Latané, North Carolina	

WESTERN FINANCE ASSOCIATION

Executive Committee

W. Scott Bauman, President	University of Oregon
David K. Eiteman, Vice President	University of California, Los Angeles
Thomas E. Stitzel, Secretary-Treasurer	Oregon State University
Charles W. Haley, Editor	University of Washington
Harold W. Stevenson	Arizona State University
Leslie P. Anderson	Colorado State University
Richard V. Cotter	University of Nevada
James C. T. Mao	University of British Columbia
David H. Pyle	University of California, Berkeley

INSTITUTIONAL MEMBERS

Southern California Edison Company	Mountain States Telephone Company
Weeden and Company, Inc.	

Copyright 1972 by the Graduate School of Business Administration, University of Washington.

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

The December issue is a special issue devoted to one topic of interest to the *JFQA*'s readership. The March issue contains selected papers, abstracts of papers, discussants' comments, and the Proceedings of the Western Finance Association meetings.

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 \$10.00; for firms or libraries, the annual rate is \$15.00. Single copies are \$2.50, except the special issues, the price of which is \$3.00. Annual subscription rates for individuals and libraries outside the United States (except Canada) are \$11.00 for individuals and \$16.00 for libraries. The fiscal year of the *Journal of Financial and Quantitative Analysis* begins on January 1. All subscriptions received prior to October 1 of any fiscal publication year will receive the entire set of journals published in that year. All subscriptions received on or after October 1 will apply to the forthcoming fiscal publication year.

Manuscripts and editorial correspondence should be sent to the Managing Editor. Advertising inquiries and books for review should be addressed to the Associate Managing Editor. Correspondence dealing with subscriptions and billing should be addressed: Subscription Manager, *JFQA*, Mackenzie Hall DJ-10, University of Washington, Seattle, Washington 98195. Claims for missing issues must be made within two months of the scheduled publication month.

Correspondence pertaining to the Western Finance Association should be sent to Professor Thomas E. Stitzel, School of Business, Oregon State University, Corvallis, Oregon 97331.

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

Volume VII, Number 2, March 1972

Abstract: A Probability Distribution of Discounted Payback for Evaluating Investment Decisions	1439
<i>Virgil V. Miller, Leslie P. Anderson, and Spencer S. Josephs</i>	
Portfolio Theory and Industry Cost-of-Capital Estimates	1443
<i>Robert H. Litzenberger and Cherukuri U. Rao</i>	
Discussant	1463
<i>James L. Bicksler</i>	
Abstract: Stock Price Movements of Firms Engaged in Large Acquisitions . .	1469
<i>Ronald W. Melicher and Thomas H. Harter</i>	
An Empirical Test of Financial Ratio Analysis for Small Business Failure Prediction	1477
<i>Robert O. Edmister</i>	
Discussant	1495
<i>J. L. Dake</i>	
Forecasting and Analysis of Corporate Financial Performance with an Econometric Model of the Firm	1499
<i>J. Walter Elliott</i>	
The Corporate Dividend-Saving Decision	1527
<i>Robert C. Higgins</i>	
Discussants	
<i>Seha M. Tinic</i>	1543
<i>Jacob Cohen</i>	1549
The Monetary Approach to Balance-of-Payments Theory	1555
<i>Harry G. Johnson</i>	
Abstract: A Theory of the Valuation of the Firm	1573
<i>William A. Longbrake</i>	
Deposit Insurance in the United States: Evaluation and Reform	1575
<i>William E. Gibson</i>	
Portfolio Performance of Property-Liability Insurance Companies	1595
<i>Robert J. Monroe and James Trieschmann</i>	
Discussants	
<i>Christian T. L. Janssen</i>	1613
<i>Paul Swadner</i>	1619
The Strange Journey of Monetary Indicators	1625
<i>George G. Kaufman</i>	
Four Ways of Aggregating Monies	1641
<i>B. P. Pesek</i>	
Discussant	1643
<i>Jerry L. Jordan</i>	

Abstract: Usefulness of Historical Risk Data to Estimate the Probability of Future Loss for Common Stocks	1647
<i>Shannon P. Pratt and Frank T. Magiera</i>	
A Model of Capital Asset Risk	1649
<i>R. Richardson Pettit and Randolph Westerfield</i>	
Abstract: An Exploratory Analysis of the Simultaneity of Stock Price Movements	1669
<i>Charles P. Jones and Michael A. Simkowitz</i>	
Discussant	1673
<i>Michael H. Hopewell</i>	
Announcements	
WFA Executive Committee Meeting Minutes	1679
WFA Business Meeting Minutes	1680
Managing Editor's Report to the Publications Committee	1683