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Abstract
Most previous studies related to the issues of private placement focus on the private placement of equity. Moreover, studies of private placement of debt, such as Szewcyky and varma(1991), Fields and Mais(1991), Dichev and Poiotroski(1999), and Krishnaswami and Subramaniam (1999), never address the influences of the firm value before issuing private debt on the announcement effect of private placement. Thus, we use the sample of firms that issue debt privately during 1986 to 1992 to investigate the announcement effect of debt private placements, and compare the difference between the effects of private placement on winners and losers. Furthermore we control the relative size of companies in order to investigate the relationship between the abnormal returns and the firm value before announcement.

The findings indicate that for full sample the cumulative average abnormal returns are negative after the company has announced debt private placement. Furthermore, we find that the winner experiences a significant negative effect on firm value and the firm value of losers is insignificantly positive. The significance test shows that the abnormal returns of winners and losers are significantly different. This result demonstrates that the firm value before announcement has significant impact on the effect of debt private placement announcement. Moreover, this study also documents the positive relation between relative issue size and the abnormal returns. This result indicates that larger issues may convey more positive information to shareholders.
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