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Underwriter warrants, underwriter compensation, and the costs of going public $\hat{\alpha}^{\dagger}$

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Abstract

Warrants are sometimes granted to underwriters in initial public offerings as part of the compensation for their services. We examine the effects of underwriter warrants in a sample of firm commitment offerings from 1983 through 1987. These warrants represent a significant component of the compensation to the underwriter and are associated with greater total costs of going public. Warrants appear to provide a mechanism for circumventing otherwise binding regulatory constraints, allowing issuers to offer extra compensation to underwriters marketing especially risky offerings.



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