JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

September 1976

JAMES R. MORRIS A Model for Corporate Debt Maturity Decision\$

HANS R. STOLL Dealer Inventory Behavior: An Empirical Investigation of NASDAQ Stocks

ROBERT L. HAGERMAN and E. HAN KIM Capital Asset Pricing with Price Level Changes

BARR ROSENBERG and JAMES A. OHLSON The Stationary Distribution of Returns and Portfolio Separation in Capital Markets: A Fundamental Contradiction

> JOHN R. EZZELL and R. BURR PORTER Flotation Costs and the Weighted Average Cost of Capital

DON B. PANTON, V. PARKER LESSIG, and O. MAURICE JOY Comovement of International Equity Markets: A Taxonomic Approach

JOHN J. McCONNELL Valuation of a Mortgage Company's Servicing Portfolio

R. N. ANDERSON, JOHN A. HASLEM, and JOHN B. LEONARD An Empirical Analysis of the Impact of Branching on Demand Deposit Variability

RICHARD H. PETTWAY The Effects of Large Bank Failures Upon Investors' Risk Cognizance in the Commercial Banking Industry

ROWLAND R. HILL An Algorithm for Counting the Number of Possible Portfolios Given Linear Restrictions on the Weights

> LAURIE DAVIES and GERD RONNING A Note on the Uniqueness of Portfolio Choice

PAUL A. SAMUELSON Limited Liability, Short Selling, Bounded Utility, and Infinite-Variance Stable Distributions

V. KERRY SMITH On the Use of Two-Stage Least Squares in Financial Models: A Comment

THE UNIVERSITY OF WASHINGTON GRADUATE SCHOOL OF BUSINESS ADMINISTRATION AND THE WESTERN FINANCE ASSOCIATION

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

A JOINT PUBLICATION

OF THE

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

AND THE

WESTERN FINANCE ASSOCIATION

EDITORIAL STAFF

Graduate School of Business Administration University of Washington Charles W. Haley, Managing Editor Lynn Lewicki, Editorial Associate

ASSOCIATE EDITORS

Richard H. Bernhard, North Carolina State	John G. McDonald, Stanford
Gerald O. Bierwag, Oregon	Jacob B. Michaelsen, UC, Santa Cruz
Marshall E. Blume, Wharton	Richard Pettit, Purdue
William Breen, Northwestern	George E. Pinches, Missouri, Columbia
Michael J. Brennan, UBC	Gary G. Schlarbaum, Purdue
Andrew H. Chen, Ohio State	Clifford W. Smith, Jr., Rochester
Thomas R. Dyckman, Cornell	Bernell K. Stone, Georgia Institute
Peter A. Frost, Washington	of Technology
Robert S. Hamada, Chicago	Roger B. Upson, Minnesota
Frank C. Jen, SUNY, Buffalo	James Van Horne, Stanford
George Kaufman, Oregon	David A. Walker, Northwestern
Michael A. Klein, Indiana	Richard R. West, Dartmouth
Alan Kraus, UBC	G. A. Whitmore, McGill
	Robert L. Winkler, Indiana

WESTERN FINANCE ASSOCIATION

1976-77 Executive Committee

A. Blaine Huntsman, President	University of Utah
David H. Pyle, President-Elect	University of California, Berkeley
Program Chairman	
Thomas E. Stitzel, Secretary-Treasurer	Boise State University
Charles W. Haley, Editor	University of Washington
John P. Herzog, Past President	Simon Fraser University
Guilford C. Babcock	University of Southern California
Michael J. Brennan	University of British Columbia
Nancy L. Jacob	University of Washington
Brian M. Neuberger	San Diego State University
Keith V. Smith	University of California, Los Angeles

INSTITUTIONAL MEMBERS

California State College, Bakersfield	University of Calgary
Center for Business and Economic	Faculty of Business
Research	University of California, Berkeley
Huntsman Chemical and Oil Corporation	School of Business Administration
Idaho State University	University of California, Los Angeles
College of Business	Study Center for Finance and
Loyola Marymount University	Business Economics
College of Business Administration	University of Utah
Southern California Edison Company	College of Business

_ _ _ _ _ _ _ _ _ _ _ _

Copyright 1976 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 readership, 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 \$12.50 (threeyear rate, \$33); for firms or libraries, the annual rate is \$20.00 (three-year rate, \$55). Annual subscription rates for individuals and libraries outside the United States (except Canada) are \$13.50 for individuals (three-year rate, \$36), and \$21 for libraries and firms (three-year rate, \$58). Single copies are \$4.00, except for special issues, the price of which is \$4.50. The fiscal year of the *Journal of Financial and Quantitative Analysis* begins on January 1.

Manuscripts and \$10 submission fee (per manuscript) 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, Washington 98195.

Correspondence pertaining to the Western Finance Association should be sent to Professor Thomas E. Stitzel, Secretary-Treasurer, School of Business Administration, Boise State University, 1910 College Blvd., Boise, Idaho 83725.

JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

Volume XI, Number 3, September 1976

A Model for Corporate Debt Maturity Decisions	339
Dealer Inventory Behavior: An Empirical Investigation of NASDAQ Stocks	359
Capital Asset Pricing with Price Level Changes	381
The Stationary Distribution of Returns and Portfolio Separation in Capital Markets: A Fundamental Contradiction \dots \dots $Barr Rosenberg and James A. Ohlson$	39 3
Flotation Costs and the Weighted Average Cost of Capital John R. Ezzell and R. Burr Porter	403
Comovement of International Equity Markets: A Taxonomic Approach	415
Valuation of a Mortgage Company's Servicing Portfolio John J. McConnell	433
An Empirical Analysis of the Impact of Branching on Demand Deposit Variability	455
The Effects of Large Bank Failures upon Investors' Risk Cognizance in the Commercial Banking Industry	465
An Algorithm for Counting the Number of Possible Portfolios Given Linear Restrictions on the Weights	479
COMMUNICATIONS	
A Note on the Uniqueness of Portfolio Choice	481
Limited Liability, Short Selling, Bounded Utility, and Infinite-Variance Stable Distributions	485
On the Use of Two-Stage Least Squares in Financial Models: A Comment	505
Announcements	510