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TESTING THE MERGER PREMIUMS IN PUBLICLY TRADED FIRMS: THE CASE OF U.S. COMMERCIAL BANKS

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Abstract

This study examines the short-term wealth effects of the mergers and acquisitions (M&As) transactions that were announced between 2000 and 2014 in U.S. Banking Industry. In particular, the merger premiums before and after the Global Financial Crisis (2008-2009) are examined. The results reveal that, on average, cumulative abnormal returns (CARs) to the target banks are 23.64% while CARs to the bidders are -1.24% around the announcement date over the sample period. We also find statistically significant positive CARs of 2.42% for the combined banks. The findings point out that M&As are value-creating events for the combined banks due to synergies created between bidders and targets; however, bidders may sometimes overpay to realize these gains. Our findings also reveal that M&As taking place before the Global Financial Crisis period (2000-20007) realize lower gains for targets, bidders and combined firms compared post-Crisis period (2010-2014) possibly due to stronger banks surviving the Crisis and existence of a more prudent and reliable market environment after the passage of Dodd-Frank Act.

Keywords: Banking; Mergers and Acquisitions; Event Study; Global Financial Crisis, Investment, Stocks.

JEL Classification: G34; G21; G14; G30

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