ABSTRACT

PRICING STRUCTURED NOTES: THE CASE OF STOCK PARTICIPATION ACCRETING REDEMPTION QUARTERLY-PAY SECURITIES (SPARQS) ISSUED BY MORGAN STANLEY

The purpose of this study was to analyze the market pricing efficiency of the Stock Participation Accreting Redemptions Quarterly-pay Securities (SPARQS), which was linked to Best Buy, from July 25, 2003 to March 24, 2004, based on the semi strong form of the efficient market hypothesis. The null hypothesis would be accepted if the average pricing error between the SPARQS' market prices and theoretical prices is statistically indistinguishable from zero. A valuation model was defined. This study showed that the average pricing error was statistically distinguishable from zero. It indicated that the SPARQS were underpriced during the sample period, leading to the rejection of the null hypothesis. This affirmed three alternative implications that were not tested since they require research outside this study's scope.

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