



# The Phenomenon of IPO Underpricing in the European and U.S. Stock Markets

By *Oliver Reiche*



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Master's Thesis from the year 2013 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 2.3, University of Duisburg-Essen, course: Energy & Finance, language: English, abstract: The Initial Public Offering (IPO) which marks one the most important events of a company basically aims to generate maximum proceeds by selling company's shares to investors. Nevertheless, the shares they sell often seem to be underpriced, insofar that the price significantly soars on the first trading day. Consequently, the company generates fewer proceeds and, hence "leaves money on the table." Since the very first detection of this phenomenon in the United States in 1969, several subsequent studies documented the existence of worldwide IPO underpricing nowadays. Considering that underpricing is costly for the company, a question arises why, therefore, despite the fact that the companies "leave money on the table", they do not try to avoid this by setting the issuing price on the very high? One of the most striking features of this question is that it had inspired many researchers who tried to explain in various models why IPOs are generally underpriced. Besides, a lot of theoretical explanations concerning this phenomenon have been given by now; however, no common sense has been so far developed.[...]

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