

The Offering Method Selecting under Information Asymmetry

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Abstract

Since 1996, the auction utilized in the IPO market had been relatively less than the bookbuilding in Taiwan. Especially the absence of auction method has occurred in 2005, while the amount of offering via bookbuilding was raised over of offering via open offer again. Whether auction is dominated by bookbuilding, even the fact is that an auctioned IPO seems to involve higher issue price and less underpricing against by bookbuilding in quite some empirical investigations. This paper develops a algorithmic approach to resolve market price and initial trading volume under information asymmetry in the market. We find that uninformed investors represent a higher fraction of shareholders to lead relatively lower market price and strictly less underpricing in spite of high/low issue price even with relatively larger initial trading volume. Thus, our study supposes that a firm tending to catch financing via primary market appears to give up auction rather than bookbuilding for gainful pricing or possibly more proceeds through the strategic revision of price and the active shares allocation, if the auctioned-like offering usually suffers noise effect resulting from uninformed investors.

Keywords: Auction, Bookbuilding, IPO, Information asymmetry.

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