

UNOBSERVABILITY OF MARKET PRICE AND POSITIVE FIRST-DAY RETURN OF IPO

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〈SUMMARY〉

We suppose the world where the offering price of an IPO is determined by investors' premarket demand. In stating the demand, however, investors cannot observe the market price and therefore have to bear more uncertainty in estimating the fundamental value. While this additional risk more or less depresses their pre-market demand, it disappears on the first day when the market price is observed. As a result, the positive initial return occurs on the average without information gap between investors.