

Chinese IPO Activity, Pricing, and Market Cycles

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Abstract

This paper examines the activity, pricing, and market cycles of 1,130 Chinese A share IPOs over the period 1991 to 2001. I find that many Chinese IPO phenomena are not stationary with severe underpricing in the short run and outperforming in the long-run. I propose a regression model that includes firm age as a proxy for IPO quality, offer price to capture excess demand, and offer size to catch firm size and find that the model explains cross-sectional short- and long-run IPO returns. I also find that monthly Chinese IPO volume and average initial returns are highly correlated. Higher initial returns tend to lead more IPOs, which in turn is followed by periods of lower initial returns.

JEL Classification: G11, G12, G15

Keywords: Chinese IPOs; short-run underpricing; long-run outperforming; market cycles

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