Executive Summary

This thesis examines the relationship between underwriter reputation and the first-day returns of initial public offerings (IPOs) in Hong Kong during the period 1994 to 2005. In contrast to previous IPO studies where an underpricing level in excess of 15% is common, this study, using a more recent and larger sample, records a relatively lower return level of 6.77%. Trying to explain such an underpricing level within the context of the relation between underwriter reputation and underpricing level of the initial public offerings (IPOs), this study develops several effective underwriter reputation measures based on the number of underwritten IPOs, the capital volume of those IPOs, the number of sponsors or underwriters involved in a new offering.

The preliminary empirical test is based on the whole sample and the result is consistent with previous IPO studies where reputable underwriters underprice their IPOs less than their less reputable competitors. But after the data are scrutinized in detail, the result shows that the medium prestige underwriters underprice their IPOs the least, then the high prestige ones, and the low prestige ones underprice their IPOs the most.

In the following part, inspired by Beatty and Welch (1996) and Cooney et al. (2001) who find a change in the negative relationship between underwriter reputation and the first day returns of IPOs, the paper examines whether this kind of changing relation exists in Hong Kong stock market. The empirical result shows that in the middle of 1990s,

no significant relation exists, but in the late of 1990s, a significantly positive relation appears, then in the early of 2000s, the significant relation disappears but with a negative sign, later in the middle of 2000s, a significantly negative relation appears. This changing relationship between underwriter reputation and underpricing level is a result of different attributes of IPOs underwritten by different prestige underwriters.