

# Political Economy of IPO Underpricing: The Evidence from China

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## Abstract

This paper looks at the IPO underpricing puzzle in a political economy perspective as the previous theories only consider the “market economy factor” in IPO underpricing and failed to incorporate the “political economy factor” in determining IPO underpricing. Particularly, in emerging markets like China, where IPOs are not only a process of raising fresh capital, but also the one of privatisation.

By examining the Chinese case with the political economy perspective, we find that the IPO underpricing is negatively related the proportion of the shares held by various government organisations, and not significant to the shareholding by other types of shareholders. We offer explanations at an angle of political economy.

**Key words:** Political Economics; Initial Public Offer;

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