# Role of Asymmetric Information and Moral Hazard in IPO Underpricing and Lockups.

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Abstract

This paper analyses the role of asymmetric information and moral hazard on IPO lockups and underpricing. Evidence show that lockups emanate from moral hazard rather than information asymmetry. Consistent with previous studies, IPO underpricing is related to information asymmetry. Determinants of lockup expiration returns show that information asymmetry is one of the determinants of asymmetric information sample, but not for moral hazard sample for share price drop around lockup expiration. I further analyse the alternative signalling via lockups and/or underpricing and find evidence in favour of that.

Keywords: Information asymmetry, Moral hazard, lockups, underpricing, insider trading, UK market.

JEL classification: G24, G32.

Preliminary, please do not quote without permission. Comments welcome.

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