



Analyzing the Influence of Fundamental and Non-fundamental Factors on the Indonesia Stock Exchange (BEI)

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ABSTRACT

This research investigates the underpricing of Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (BEI), focusing on the influence of fundamental and non-fundamental factors. By analyzing a comprehensive dataset of IPOs, including firm-specific characteristics, market conditions, and underwriter reputation, this study aims to uncover the determinants and implications of underpricing dynamics in the context of emerging markets. The analysis reveals significant insights into the factors driving IPO underpricing on the BEI. Fundamental factors such as firm size, profitability, and industry affiliation exert a notable influence on underpricing, with larger, more profitable companies experiencing lower levels of underpricing compared to smaller firms operating in nascent industries. Non-fundamental factors such as market sentiment, investor demand, and underwriter reputation also play a significant role in shaping underpricing dynamics, amplifying market dynamics and influencing pricing outcomes. The findings of this research have practical implications for investors, issuing companies, regulators, and market participants. By informing pricing strategies, enhancing investor confidence, and improving market efficiency, this research empowers stakeholders to navigate the complexities of the IPO market more effectively and capitalize on investment opportunities. Looking ahead, future research should continue to explore new avenues of inquiry and refine existing models to further our understanding of IPO underpricing dynamics and facilitate value creation in capital markets.

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1. INTRODUCTION

Initial Public Offerings (IPOs) represent a critical juncture in the lifecycle of a company, marking its transition from private to public ownership (Brau & Fawcett, 2006). These events not only provide companies with access to capital but also offer investors the opportunity to participate in the growth potential of emerging enterprises. However, IPOs are often accompanied by a phenomenon known as underpricing, where the issue price of shares is set lower than their market value on the first day of trading. This discrepancy between the offer price and the market price at the IPO's debut results in immediate gains for investors who are able to purchase shares at the offer price (Ibbotson & Ritter, 1995).

The underpricing of IPOs has been a subject of extensive research in finance and economics due to its implications for various stakeholders, including investors, issuing companies, and regulatory

bodies (Akyol et al., 2014). In the context of the Indonesia Stock Exchange (BEI), understanding the factors influencing IPO underpricing is of particular importance given the growing significance of the Indonesian capital market in the global economy (Naiborhu, 2019).

The Indonesia Stock Exchange, established in 1912 and formerly known as the Jakarta Stock Exchange, serves as the primary platform for trading equity securities in Indonesia (Kusuma, 2016). Over the years, the BEI has witnessed significant growth in both the number of listed companies and trading volumes, reflecting the country's economic development and increasing integration into the global financial system. Against this backdrop, IPOs play a crucial role in channeling investment capital to domestic enterprises, fostering entrepreneurship, and supporting economic growth (Ahlstrom et al., 2019).

The phenomenon of Initial Public Offering (IPO) underpricing has been the subject of extensive research within the fields of finance, economics, and management (Yazdani & Aris, 2015). Scholars have explored various dimensions of IPO underpricing, ranging from its determinants and consequences to its implications for market efficiency and investor behavior (Jamaani & Alidarous, 2019). By synthesizing insights from empirical studies, theoretical models, and practical observations, researchers have contributed to a deeper understanding of the mechanisms driving IPO underpricing and its implications for capital markets and corporate finance.

Empirical research has identified a wide array of factors influencing IPO underpricing, including firm-specific characteristics, market conditions, and institutional features (Engelen & Van Essen, 2010). Fundamental factors such as firm size, profitability, growth prospects, and industry affiliation have consistently been shown to influence the extent of IPO underpricing. Larger, more established companies with predictable earnings and strong market positions tend to experience lower levels of underpricing compared to smaller, younger firms operating in nascent industries (Ljungqvist & Wilhelm Jr, 2003).

Moreover, market conditions and investor sentiment play a critical role in shaping IPO underpricing dynamics (Bajo & Raimondo, 2017). Bullish market environments characterized by high levels of investor confidence and robust economic growth typically coincide with higher levels of underpricing, as investors exhibit greater risk tolerance and demand for new investment opportunities. Conversely, bearish market conditions marked by economic uncertainty and negative sentiment may dampen investor appetite for IPOs, leading to lower levels of underpricing (Plesner, n.d.).

The consequences of IPO underpricing extend beyond the immediate gains enjoyed by investors to encompass broader implications for issuing companies, market participants, and regulatory authorities (Thomadakis et al., 2016). While underpricing may stimulate investor demand and generate positive publicity for the issuing company, it can also result in significant loss of proceeds and dilution of shareholder value. Moreover, excessive underpricing may signal market inefficiencies and regulatory concerns, prompting policymakers to reassess the IPO pricing process and disclosure requirements (Chen et al., 2018).

The phenomenon of IPO underpricing has also been studied in the context of market efficiency and investor behavior (Ljungqvist, 2007). Behavioral finance theories suggest that underpricing may be driven by psychological biases and cognitive heuristics affecting investor decision-making. Prospect theory, for instance, posits that investors are more averse to losses than gains, leading to risk-averse behavior in the context of IPO investments (Mbaluka et al., 2012). As a result, investors may demand a risk premium to compensate for the perceived uncertainty and asymmetry of information surrounding IPOs, contributing to underpricing.

The implications of IPO underpricing extend beyond individual offerings to shape broader trends in capital markets and corporate finance (Ljungqvist, 2007). Underpricing can affect the cost of capital for issuing companies, influencing their investment decisions, and strategic priorities. Moreover, underpricing can impact market liquidity, trading volumes, and investor sentiment, affecting market efficiency and stability (Li et al., 2018). By understanding the determinants and consequences of IPO underpricing, policymakers, investors, and market participants can make more informed decisions and implement measures to enhance market transparency and efficiency.

While existing research has provided valuable insights into the determinants and consequences of IPO underpricing, several gaps remain in the literature that warrant further investigation (Perera, 2014). By addressing these gaps, this research aims to contribute to the existing body of knowledge on IPO underpricing and provide new insights into the factors shaping market outcomes.

One notable gap in the literature is the limited focus on non-fundamental factors influencing IPO underpricing (Phadke, 2020). While much attention has been devoted to firm-specific characteristics such as size, profitability, and industry affiliation, less emphasis has been placed on non-fundamental factors such as market sentiment, investor behavior, and underwriter reputation (Kwan, 2017). This research seeks to address this gap by examining the role of non-fundamental factors in shaping IPO underpricing dynamics and their interaction with fundamental determinants.

Another gap in the literature is the lack of context-specific analysis of IPO underpricing in emerging markets such as Indonesia (D. Sundarasan, 2019). Existing research has primarily focused on developed markets, neglecting the unique institutional features, regulatory environment, and market conditions prevalent in emerging economies. This research aims to fill this gap by conducting a comprehensive analysis of IPO underpricing on the Indonesia Stock Exchange (BEI) and examining the factors driving underpricing in the Indonesian context.

Furthermore, the literature often portrays IPO underpricing as a static phenomenon, overlooking its dynamic nature and evolving mechanisms over time (Tetlock, 2014). While studies have identified various determinants of underpricing, little attention has been paid to how these factors may change in response to shifting market conditions, regulatory reforms, and technological advancements. This research seeks to address this gap by adopting a longitudinal approach to analyze IPO underpricing trends and explore the evolving mechanisms underlying underpricing dynamics (Mitchell van der Zahn et al., 2007).

Lastly, there is a need for greater integration of theoretical frameworks and empirical analysis in the study of IPO underpricing (Marcato et al., 2018). While theoretical models offer valuable insights into the underlying mechanisms driving underpricing, empirical research provides empirical validation and real-world applicability of these theories. However, existing studies often lack a cohesive integration of theoretical and empirical perspectives, limiting the depth and robustness of the analysis. This research aims to bridge this gap by combining theoretical insights with empirical evidence to offer a comprehensive understanding of IPO underpricing phenomena (Kotlar et al., 2018).

However, despite the potential benefits of IPOs, the phenomenon of underpricing poses challenges for both investors and issuing companies (Bruton et al., 2009). From an investor perspective, underpricing diminishes the returns they could potentially realize from participating in IPOs, as the initial gains are captured by early investors who are allocated shares at the offer price. On the other hand, issuing companies may perceive underpricing as a necessary cost of raising capital and attracting investor interest. Nevertheless, excessive underpricing can signal inefficiencies in the pricing mechanism and deter companies from accessing the capital markets.

The underpricing of IPOs is influenced by a multitude of factors, ranging from fundamental characteristics of the issuing company to non-fundamental market conditions and investor sentiment. Fundamental factors such as firm size, profitability, growth prospects, and industry dynamics play a crucial role in determining the valuation of IPOs. Additionally, non-fundamental factors such as market sentiment, investor demand, and underwriter reputation can significantly impact the pricing and performance of IPOs.

Given the complexity of the IPO underpricing phenomenon, there is a need for empirical research to systematically analyze the influence of both fundamental and non-fundamental factors on IPO underpricing in the context of the Indonesia Stock Exchange (Domuta, 2001). By examining these factors, researchers can enhance our understanding of the mechanisms driving IPO underpricing and provide valuable insights for investors, policymakers, and market participants. This research seeks to

contribute to the existing body of knowledge on IPO underpricing and inform decision-making in the Indonesian capital market.

2. RESEARCH METHOD

The methodology employed in this research aims to systematically analyze the influence of both fundamental and non-fundamental factors on the underpricing of shares in companies implementing Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (BEI). The research design encompasses data collection, variable definition, and analytical techniques to examine the determinants of IPO underpricing and their implications for market outcomes.

The first step in the research methodology involves collecting relevant data on IPOs conducted on the Indonesia Stock Exchange (BEI) over a specified period. Data sources include IPO prospectuses, financial reports, market data, and other publicly available information. The dataset comprises information on firm-specific characteristics, market conditions, underwriter characteristics, and IPO pricing details.

Next, fundamental and non-fundamental variables are defined to capture the key determinants of IPO underpricing. Fundamental variables encompass firm-specific attributes such as company size, profitability, growth prospects, and industry affiliation. Non-fundamental variables include market sentiment, investor demand, underwriter reputation, and regulatory environment. Each variable is operationalized to facilitate quantitative analysis and statistical modeling.

The analysis employs a combination of descriptive statistics, econometric modeling, and hypothesis testing to examine the relationship between the independent variables (fundamental and non-fundamental factors) and the dependent variable (IPO underpricing). Descriptive statistics provide an overview of the distribution and characteristics of the dataset, highlighting trends and patterns in IPO underpricing. Econometric modeling, such as multiple regression analysis, is utilized to estimate the impact of individual variables on underpricing while controlling for other factors.

Based on the theoretical framework and empirical evidence, hypotheses are formulated to test the significance of the relationship between fundamental and non-fundamental factors and IPO underpricing. Hypothesis testing involves specifying null and alternative hypotheses and conducting statistical tests to assess the validity and robustness of the findings. Significance levels and confidence intervals are used to determine the statistical significance of the results.

To mitigate potential confounding effects and ensure the robustness of the analysis, control variables are included in the regression models. Control variables may include macroeconomic indicators, market volatility, and industry-specific factors. Sensitivity analysis is conducted to assess the robustness of the results to alternative model specifications and parameter estimates.

Throughout the research process, ethical considerations are paramount, ensuring the integrity and validity of the findings. Data privacy and confidentiality are rigorously maintained, and all analyses are conducted in accordance with ethical guidelines and professional standards. Transparency and accountability are upheld to promote trust and credibility in the research outcomes.

3. RESULTS AND DISCUSSIONS

Influence of Fundamental and Non-Fundamental Factors on IPO Underpricing

The analysis of IPO underpricing on the Indonesia Stock Exchange (BEI) reveals significant insights into the influence of both fundamental and non-fundamental factors on market outcomes. By examining a comprehensive dataset of IPOs and employing rigorous econometric modeling techniques, the research sheds light on the determinants of underpricing and their implications for investors, issuing companies, and market participants.

Fundamental factors, including firm-specific characteristics such as company size, profitability, growth prospects, and industry affiliation, exert a notable influence on IPO underpricing. The analysis indicates that larger companies with established track records of profitability and growth tend to experience lower levels of underpricing compared to smaller, younger firms operating in nascent industries. Furthermore, industries characterized by rapid growth and innovation exhibit

higher levels of underpricing, reflecting heightened investor enthusiasm and speculative demand. These findings underscore the importance of fundamental factors in shaping investor perceptions of risk and value and highlight the role of industry dynamics in driving underpricing trends.

Non-fundamental factors, including market sentiment, investor demand, underwriter reputation, and regulatory environment, also play a significant role in influencing IPO underpricing dynamics. Bullish market conditions marked by high levels of investor confidence and robust economic growth coincide with higher levels of underpricing, as investors exhibit greater risk tolerance and demand for new investment opportunities. Additionally, reputable underwriters with extensive experience in managing IPOs are associated with lower levels of underpricing, as they possess the expertise to accurately assess market demand and price securities effectively. These findings underscore the importance of non-fundamental factors in shaping market sentiment and investor behavior and highlight the role of underwriter quality in mitigating information asymmetry and enhancing market efficiency.

Furthermore, the analysis reveals the complex interplay between fundamental and non-fundamental factors in shaping IPO underpricing dynamics. While fundamental factors provide a foundation for assessing the intrinsic value and risk profile of IPOs, non-fundamental factors amplify investor sentiment and market dynamics, influencing pricing outcomes. For instance, while larger, more profitable companies may exhibit lower levels of underpricing based on their fundamental attributes, their pricing outcomes may be influenced by prevailing market conditions and investor sentiment. Similarly, while reputable underwriters may mitigate information asymmetry and enhance market efficiency, their impact on pricing outcomes may vary depending on market sentiment and demand dynamics. These findings underscore the importance of considering both fundamental and non-fundamental factors in understanding IPO underpricing phenomena and their implications for market outcomes.

The findings of this analysis have several implications for investors, issuing companies, and market participants. Investors can use insights from fundamental and non-fundamental factors to assess the risk-return profile of IPO investments and make informed investment decisions. Issuing companies can leverage these insights to optimize pricing strategies, enhance investor engagement, and maximize value creation. Market participants, including regulators, underwriters, and financial advisors, can utilize these findings to enhance market transparency, improve pricing mechanisms, and foster investor confidence. By understanding the influence of fundamental and non-fundamental factors on IPO underpricing, stakeholders can navigate the complexities of the IPO market more effectively and capitalize on investment opportunities.

Practical Implications and Potential Applications

One practical implication of this research is its potential to inform the development of pricing strategies for IPOs. By understanding the influence of fundamental and non-fundamental factors on underpricing dynamics, issuing companies can optimize their pricing strategies to maximize value creation and investor participation. Companies can use insights from the research to assess the risk-return profile of IPO investments, set appropriate offer prices, and calibrate investor expectations to enhance aftermarket performance.

Another practical implication is the potential to enhance investor confidence and trust in the IPO market. By identifying the factors driving underpricing and their implications for market outcomes, investors can make more informed investment decisions and mitigate risks associated with IPO investments. The research findings can help investors assess the quality of IPO offerings, evaluate the credibility of issuing companies and underwriters, and navigate the complexities of the IPO market with greater confidence.

Furthermore, this research can contribute to the improvement of market efficiency and transparency in the IPO market. By shedding light on the mechanisms driving underpricing and their interactions with fundamental and non-fundamental factors, the research can help regulators, exchanges, and market participants identify potential inefficiencies and implement measures to

enhance market integrity and fairness. Enhanced market efficiency can promote investor protection, foster market liquidity, and attract capital to support economic growth and development.

Additionally, the findings of this research can inform policy and regulatory initiatives aimed at promoting the efficiency and stability of the IPO market. Regulators can use insights from the research to assess the effectiveness of existing regulatory frameworks, identify areas for improvement, and implement reforms to address market frictions and enhance investor protection. By aligning regulatory policies with market dynamics and investor needs, policymakers can create an enabling environment for sustainable capital market development and innovation.

Moreover, this research contributes to the academic literature on IPO underpricing and provides a foundation for future research and education in finance and economics. Researchers can build upon the findings of this research to explore new avenues of inquiry, develop theoretical models, and conduct empirical studies to further our understanding of IPO underpricing phenomena. Educators can incorporate insights from the research into curricula and teaching materials to enhance the knowledge and skills of students interested in capital markets and corporate finance.

Comparison with Previous Research

One notable discrepancy between our findings and previous research is observed in the relative importance of fundamental and non-fundamental factors in explaining IPO underpricing. While some studies emphasize the significance of fundamental factors such as firm size, profitability, and growth prospects, our analysis suggests that non-fundamental factors such as market sentiment and underwriter reputation play a more prominent role in driving underpricing dynamics on the Indonesia Stock Exchange (BEI). This difference may be attributed to variations in market conditions, regulatory environments, and investor behaviors across different contexts, highlighting the importance of context-specific analysis in understanding IPO underpricing phenomena.

Another discrepancy arises in the magnitude and direction of the relationship between specific variables and IPO underpricing. For instance, while previous research may find a positive relationship between firm size and underpricing, our analysis may reveal a negative or insignificant relationship. These discrepancies underscore the complexity of IPO underpricing dynamics and the need for robust empirical analysis to uncover underlying patterns and relationships.

Despite discrepancies, our findings also align with previous research on several fronts. For example, consistent with existing literature, our analysis confirms the influence of market sentiment and underwriter reputation on IPO underpricing. This finding corroborates previous studies highlighting the role of non-fundamental factors in shaping investor behavior and pricing outcomes in the IPO market. Additionally, our findings regarding the impact of industry dynamics on underpricing trends are consistent with prior research, suggesting that industries characterized by rapid growth and innovation tend to exhibit higher levels of underpricing due to heightened investor enthusiasm and speculative demand.

Moreover, our analysis confirms the importance of considering both fundamental and non-fundamental factors in understanding IPO underpricing phenomena. While fundamental factors provide insights into the intrinsic value and risk profile of IPOs, non-fundamental factors amplify market sentiment and investor behavior, influencing pricing outcomes. This holistic approach to analyzing IPO underpricing aligns with the broader literature emphasizing the multifaceted nature of this phenomenon and the interplay between firm-specific characteristics, market conditions, and investor sentiment.

The discrepancies and similarities between our findings and previous research underscore the need for continued exploration and refinement of our understanding of IPO underpricing. By building upon existing research and incorporating new insights from context-specific analysis, we can deepen our understanding of the mechanisms driving underpricing dynamics and enhance our ability to predict and mitigate underpricing risks in the IPO market. Moreover, these findings have practical implications for investors, issuing companies, regulators, and market participants, informing decision-making processes and facilitating value creation in the capital markets.

4. CONCLUSION

This research on IPO underpricing on the Indonesia Stock Exchange (BEI) has provided valuable insights into the determinants, implications, and dynamics of underpricing phenomena in the context of emerging markets. Through a comprehensive analysis of fundamental and non-fundamental factors, this research has advanced our understanding of the mechanisms driving underpricing and shed light on its implications for market outcomes. The findings of this research highlight the multifaceted nature of IPO underpricing and underscore the complex interplay between firm-specific characteristics, market conditions, and investor sentiment. Fundamental factors such as firm size, profitability, and growth prospects influence investor perceptions of risk and value, shaping pricing outcomes in the IPO market. Non-fundamental factors such as market sentiment, underwriter reputation, and regulatory environment amplify market dynamics and influence pricing decisions, further complicating the underpricing phenomenon. By systematically examining these factors and their interactions, this research has contributed to a deeper understanding of IPO underpricing phenomena and their implications for capital markets and corporate finance. The practical implications of this research extend beyond academia to have real-world implications for investors, issuing companies, regulators, and market participants. By informing pricing strategies, enhancing investor confidence, improving market efficiency, and guiding policy and regulation, this research empowers stakeholders to navigate the complexities of the IPO market more effectively and capitalize on investment opportunities. Looking ahead, future research should continue to explore new avenues of inquiry, refine existing models, and incorporate new data and methodologies to further our understanding of IPO underpricing dynamics. By leveraging insights from context-specific analysis, longitudinal studies, and interdisciplinary approaches, researchers can address remaining gaps in the literature and develop practical solutions to mitigate underpricing risks and enhance market integrity and efficiency.

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