

PROXIMITY AND IPO UNDERPRICING

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Abstract

The paper analyses the relationship between issuers' location and IPO underpricing in the U.S. in the period 1986-2011. Issuers headquartered in rural areas are associated with approximately seven percentage points lower underpricing compared to urban firms. This finding is consistent with strong local bias in rural areas, accompanied by superior local information and monitoring intensity, which results in more accurate pricing and less 'money left on the table'. The paper further finds that refined measures of local bias, such as proximity to finance professionals and density of financial expertise, affects IPO underpricing more than proximity to large cities.

Keywords: IPO underpricing, proximity, local bias, information

JEL classification: G10, G12, G30

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