# Abstract

It is found that the IPOs are typically underpriced. Therefore, the return of the first trading day is always positive and abnormally higher. In this paper, we test the implications of three models of IPOs underpricing: (1) one for underwriter price support and (2) two for signaling models. The empirical results support the underwriter price support hypothesis and Grinblatt and Hwang (1989) model which states if the variance is constant, the fraction of shares held by insiders will positively influence the initial returns. On the other hand, we do not support the implication of Allen and Faulhaber (1989) model which predicts that a positive relationship between the degree of underpricing and subsequent earnings performance and dividend policy of a firm.



**Keywords**: Initial Public Offering, Signaling Model, Underwriter Price Support