Accounting Conservatism and IPO Underpricing:
Evidence from China

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A thesis submitted in partial fulfilment of the requirements
for the degree of
Master of Philosophy

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Hong Kong Baptist University
August 2011
Abstract

This study examines how accounting conservatism affects the underpricing of initial public offerings (IPOs) in Chinese stock market. In addition, I investigate how information asymmetry impacts the association of accounting conservatism with IPO underpricing. I also examine the effect of corporate governance on the relationship between accounting conservatism and IPO underpricing. Using a large sample of A-share companies that went public through initial public offerings on both Shanghai and Shenzhen Stock Exchanges in China during 2001 to 2009, I find that: (1) accounting conservatism is negatively associated with the level of IPO underpricing; (2) the relationship between IPO underpricing and accounting conservatism is more pronounced when information asymmetry is high; and (3) the relationship between IPO underpricing and accounting conservatism is more pronounced when corporate governance is weak. The findings should shed light into what drives IPO underpricing and how it could be affected by accounting conservatism in an emerging economy, in particular.

Keywords: IPO underpricing; accounting conservatism; information asymmetry; corporate governance.
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