

MGST 451

Corporate Governance and Ethical Decision-Making

Lecture 22 – Winter 2019 L01-L03

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- In-class activity 7
 - The Trading IPO Shares Simulation
 - Students sit with their group.
 - The number of teams needs to be at most 10 and no less than 8.
 - Read the instructions for the simulation
 - Read the instructions for your team
 - Be quick and competitive (but still nice) !

- It is very difficult to price accurately IPO shares.
- Often IPO shares are underpriced and therefore very much in demand, which might lead to price to overshoot its true value in the first few days of trading.
- But, it is potentially a fertile ground for price manipulation
 - Underwriters and their preferred clients collude to take advantage of excessive investor demand;
 - It is done through ‘laddering’, as preferred clients agree to buy additional shares at a higher price further inflating the price and then later selling at a further inflated price.
- Price manipulation is illegal and several investigations have discovered such IPO collusion efforts to defraud investors.

- March 27: IPO share price range: \$70 to \$72
- March 28: IPO price of \$72
- March 29: open at \$87.24, intraday high of \$88.60 and close of \$78.29
- April 1: close of \$69.01
- April 2: close of \$68.97
- Price decrease of ~4% over IPO price in three days
- And loss of ~22% if you bought at \$88.60!

