# Initial public offering (IPO) underpricing: game theory approach

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There are large information asymmetries in the stock market, particularly in the primary market where Initial Public Offerings (IPOs) are made. At the same time, on the majority (if not all) of the stock exchanges, the average initial return from investing in IPOs is positive and relatively large. For example, in Poland between 2003 and 2014 it equaled 12.4%, which is similar to the findings on other equity markets in the world. The process of bringing an IPO to the market involves the issuing firm, the brokerage house, and both groups of investors, i.e. informed and uninformed ones. We discuss the strategic relationships that exist between these entities and why each either accepts a smaller gain or demands a risk premium based on the level of uncertainty they face using the game theory approach.