

Faculty Development Seminar
**The Use and Misuse of Instrumental
Variables in Empirical Corporate Finance**

Background Reading:

Habib, Michel A., and Alexander Ljungqvist, "Underpricing and Entrepreneurial Wealth Losses in IPOs: Theory and Evidence," *Review of Financial Studies* (Summer 2001) Vol. 14, No. 2, pp. 433-458.

Loughran, Tim, and Jay R. Ritter, "Why Has IPO Underpricing Changed Over Time?" *Financial Management* (Autumn 2004) Vol. 33, No. 3, pp. 5-37.

Research Seminar
Multiple Bookrunners in IPOs*

Wendy Yunchun Hu

Jay R. Ritter

ABSTRACT

In the last decade, there has been a dramatic change in syndicate structure for IPOs; while at the same time fees (gross spreads) have not changed. Most theories of underwriter syndicate structure emphasize information collection. We instead offer bargaining framework. The increasing number of multiple bookrunners in the IPOs of recent years can be explained by (1) the increased issue size, (2) the significantly reduced amount of available IPO business after 2000, (3) the decreased importance of all-star analyst coverage, and (4) the increased number of buyout-backed IPOs. The benefits of multiple bookrunners to an issuer include improved bargaining power, which is reflected in the high file price ranges and high offer prices relative to the first-day closing market prices, and the participation of commercial banks with their loan tie-ins.
