



Chapter 7.1.2
Book-building

Outline

- Problem and model assumptions
- Efficient pricing
- Bidding process
- Book-building mechanism
- Summary

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- ▶ The price is **lower** than in efficient pricing

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- ▶ The price is lower than in efficient pricing, but as **all securities** are **sold**, the proceeds are **higher**

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- ▶ If reporting high signal **truthfully** and h other high signal have been reported, the **value** of the security is $E \left[\hat{V} | h + 1 \right]$

- ▶ Profits are: $\Pi_D^{HH} = \left(E \left[\hat{V} | h + 1 \right] \right)$

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- ▶ This needs to be weighed for the **likelihood** of having h high signals
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- ▶ This needs to be weighed for the **likelihood** of having h high signals, across **all possibilities**
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- ▶ An investor receiving a **low** signal, would not report a high signal

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■ Problem and model assumptions

■ Efficient pricing

■ Bidding process

■ Book-building mechanism

■ Summary

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