



SDI Review Form 1.6

Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	2014_BJEMT_12762
Title of the Manuscript:	Corporate Fraud Tendencies Verses IPOs Initial Returns Volatility
Type of the Article	Original Research Article

General guideline for Peer Review process:

This journal's peer review policy states that **NO** manuscript should be rejected only on the basis of '**lack of Novelty**', provided the manuscript is scientifically robust and technically sound.

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PART 1: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
<u>Compulsory</u> REVISION comments	1. I have concerns in terms of the demand and supply curve in Figure 1. While the Economics theory learned from ECON 101 suggests downward sloping demand curve and upward sloping supply curve, those are for the normal goods. In the process of IPO, the shares issued are not necessarily normal goods. Post-application to the exchange administrative, the supply curve is flat-the quantity of supply is fixed regardless of the price. The demand curve might be the shape of a downward stairs-each buy side analyst have their own conclusion of the intrinsic value of the share, no matter it is from the absolute pricing models (FCFF, FCFE, DIV) or relative pricing models. When the offering price is higher than their calculated intrinsic value, the demand is zero; if it is lower, the demand is infinite as long as the budget permits. 2. I am pretty concerned about the way that the author(s) assert the underpricings and overpricings	This is an in-depth and technical research on IPOs pricing and returns volatility that is far beyond the so-called ECONS 101 of the sort please. In fact, the slope of the curve does not depict the elementary DD and SS curves you tend to be portraying. It is a well researched work of Ma published in a reputed Proceeding called <i>Global Conference on Business and Economics</i>, Oxford, U.K., 26-28 June, 2005. It seems the reviewer is confused or that, this is not his/her area of specialty.



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	as mispricing and as fraud. Specifically speaking: 2.1 Underpricing and overpricing are both relative to the benchmark pricing, which is ideally regarded as the intrinsic value. However, the intrinsic value is NEVER known precisely, even by the insider of the firm. The insiders might know more, but they usually cannot tell why \$25.00 per share pricing is less reasonable than \$25.08. If we do not have a solid benchmark, we cannot define an offering price is definitely “over” or “under”. Hence the word “mispricing” is not appropriate-the problem might be “misbenchmark”. The authors can look into this from very classical textbooks such as CFA II 2014 Volume 4, pp 7. 2.2 Even from the author(s)’ perspective of mispricing, it is easier to define overpricing as mispricing, but not the case for the underpricing. Underpricing might be the result of uncertain macro-econ climate, or other variables that are not controlled in the FCF discount models, such as size, B/M, LIQ, and so on. 2.3 Similar to 2.2, such underpricing and overpricing	Sorry these do not portend what we are writing please. We are sorry you need more knowledge on stocks mispricing. Please you may read examples on the “Wall Street Journal”.
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	are not necessarily fraud. Regulators will not make it easy to the firms and their auditors if it is really the case that the wide range fraud is present. 3. Please do not use IR in equation 3. IR in finance is pre-occupied by information ratio, just like CAPM. 4. In Table 1, please do not use @. 5. Please perform unit root tests before presenting the results in Table 2. If the variables are $I(1)$ and are not cointegrated, the results will not be meaningful. Or the author(s) need to show that the variables are $I(0)$. 6. Please refine the reference. Information like Bodie's textbook is not necessary unless you have a direct quote or a piece of conclusion from them. If it is just the common knowledge that you have learned from them, save the space.	Sorry IR can be used for anything as long as it is defined in the work. Not necessary The dummy variables are already $I(0)$ variables. We don't think so please.
<u>Minor</u> REVISION comments	Please see above.	
<u>Optional/General</u> comments	Please see above.	