

## Security Mispricing and Investor Activism:A Coordination Problem

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This paper examines an interaction between two types of investors through “rational” security mispricing: the two types are those who gather information to intervene in a firm to improve its performance and those who gather it to speculate in a firm’s securities. Less mispricing benefits interventionists since a price more accurately rewards them for their activities; meanwhile more mispricing benefits speculators since a price provides them with more profit opportunities. However, in equilibrium the extent of mispricing itself is determined by intervention and speculation activities as well as a market noise. Due to this endogeneity of mispricing, intervention and speculation activities can display a non-trivial interaction. It is shown that the interaction can generate a coordination problem leading to the possibility of multiple equilibria: one equilibrium is characterized by the lack of investor activism and a low performance of the firm, while another is characterized by the opposite features; then investors’ self-fulfilling expectations may decide which equilibrium will be materialized.

*Keywords:* Intervention, Speculation, Mispricing, Coordination failure, Multiple equilibria, IPO