The Economics of financial markets

Bailey, Roy E.

Abstrak

Financial markets encompass a broad, continually evolving and not altogether clearly delimited collection of institutions, formal and informal, that serve to facilitate the exchange of assets. More to the point, the concept of an ?asset? is open to a variety of interpretations.1 Rather than get bogged down in arbitrary classifications ? and in ultimately fruitless distinctions ? the nature of ?assets? and the markets in which they are traded is allowed to emerge from examples. To place the examples in context, the chapter begins by reviewing, in section 1.1, the fundamental properties of financial systems, and identifies various sorts of capital market, several of which receive attention later in the book. The main objective of this chapter is to outline the ideas that underpin explanations of asset prices and hence rates of return. Sections 1.2, 1.3 and 1.4 describe a framework for modelling asset price determination and comment on alternative approaches. Central to an understanding of finance is the process of arbitrage. Arbitrage trading policies seek, essentially, to exploit price discrepancies among assets. Of more interest than the policies themselves are their unintended consequences, namely the implications they have for tying asset prices together in predictable patterns. The examples in section 1.5 serve to introduce arbitrage. Its consequences emerge in several places throughout the book. Observers and analysts of capital markets frequently seek ways to appraise the performance of the markets. The concepts of ?efficiency? introduced in section 1.7 show that different criteria can be applied in making judgements about how well the markets function.