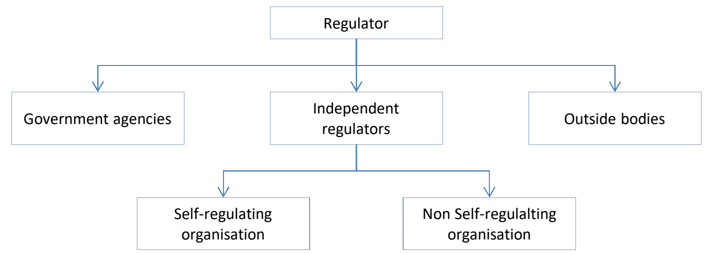
| Concepts | Description |
|---|---|
| **Economics of Regulations** | |
| Regulators |  |
| Use of self-regulation in financial markets | Self-regulating organisations are :<br>- Independent of the government<br>- Immune from political pressure<br>- Subject to pressure from members<br><br>FINRA : recognised by SEC in US<br>- Objective : protect investors + maintain fairness of US capital markets<br>- Has authority to enforc security laws and regulations |
| Economic rationale for regulation | Regulations ae required to solve :<br>1. Information frictions : information is not equally available<br>2. Externalitites : costs / benefits affect a party that did not choose to incur that costs / benefits |
| Reguatory independencies | **1. Regulatory capture theory** : regulatory will be influenced / controlled by the industry that is being regulated, since regulators often have experience in the industry→ affect reglators' ability to render impartial decision<br>**2. Regulatory competition** (regulatory differences between jurisdictions)→ regulators compete to provide most business-friendly regulatory environment<br>**3. Regulatory arbitrage** : businesses shop for country tht allows specific behaviour than changing the behaviour<br>- To avoid regulaltory arbitrage → co-operation at global level to achieve a cohensive regulatory framework |
| Tools of regulatory intervention | **1. Price mechanisms** : use taxes / subsidies to further specify a regulatory objectives (e.g.: sin taxes con alcohol, sbsidies on green energy)<br>**2. Restricting / Requiring certain activities** : ban / require to perform certain activities<br>3. Provision of public goods or financing of private projects : regulators to provide public goods or fund private projects, depending political priorities and objectives<br>(*) Effectiveness of regulatory tools : depend on enforcement ability of regulators |
| Purpose in regulating commerce markets | - Provide essential framework to facilitate business making<br>- May facilitate / hinder commerce<br>- Example : company laws, tax laws, contract laws, competition laws, banking laws, bnkruptcy laws, dispute resolution system |
| Purpose in regulating financial markets | **Regulating financial markets** : to protect investors ; create confidence in the markets and enhance capital formation<br>**1. Regulaton of security markets** : Ensure fairness and integrity of capital markets → protect investors, by :<br>- Disclosure requirements → provide transparency in financial markets → promote investor confidence<br>- Mitigate agency problem<br>- Focus on protecting small investors<br>**2. Regulation of financial institutions**<br>- <u>Prudential supervision</u> : monitor and regulate financial institutions → reduce system-wide risks → protect investors |
| Antitrust regulation | Antitrust laws : promote domestic competition by monitoring / restricting activities that reduce / distort competition<br>Prohibited activities include :<br>- merger that leads to excessive concentration of market share<br>- Discriminatory pricing<br>- Bundling<br>- Exclusive dealing |
| Costs of regulations | 1. Regulatory burden : cost of compliance for regulated entity<br>2. Unintended consequences of regulations (e.g.: increase in fuel efficiency standards→ encourage consumers to drive more)<br><br>(*) Regulatory costs are difficult to assess before the regulation is put in place<br>Sunset clause : require regulators to revisit cost-benefit analysis based on actual outcomes before revise the regulation |
| Impact of regulation on industry, company, or security | - Regulation may shrink size of one industry, while increase the size of another<br>- Regulations may benefit the regulated entities<br>- Regulations may introdice inefficiencies in the market<br>- Some regulations are only for a specific sector, while other regulations affect multiple sectors<br>- Certain industries have more exposure to certain types of regulations |