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Analysis of Problems and Countermeasures in China's Stock Market

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Abstract: As an important part of the global financial system, China's stock market has unique characteristics and challenges, such as high market volatility, information asymmetry, policy risks, and market mechanism defects. This paper aims to analyze these major problems facing the Chinese stock market and propose practical solutions. By studying the challenges of market volatility, information asymmetry, policy risks, insufficient investor education, and imperfect legal framework, this paper proposes countermeasures to improve the stability and efficiency of China's stock market. These countermeasures include improving policy transparency, promoting institutional investor participation, strengthening investor education, improving information disclosure mechanisms, and strengthening market supervision. The results show that by implementing these measures, market volatility can be effectively reduced, information transparency can be improved, market efficiency can be enhanced, and support can be provided for the sustainable development of China's stock market. This study provides valuable insights for policymakers, investors, and scholars to promote the healthy and stable development of China's stock market.

Keywords: Chinese stock market, Market volatility, Information asymmetry, Policy risk, Investor education.

1. Introduction

The Chinese stock market has grown to bill for the nation's rapid economic expansion as well as its major contribution to its international business membership. As the world's second-largest economy, China's capital market has a profound impact on international investment flows and economic stability. Therefore, studying the Chinese stock market is of great significance.

The primary goals of this study are to examine the various issues the Chinese stock market is currently experiencing and provide tips for effective solutions. The study will focus on addressing some key issues, including market volatility, information asymmetry, policy risks, defects in market mechanisms, and market manipulation and violations due to insufficient investor education and imperfect legal frameworks. Useability and justice of the market are quickly affected by these issues. This research hopes to uncover insights from an in-depth analysis of these issues that may enhance business safety, increase regulatory practices, and foster a positive trading environment.

To achieve this goal, this study adopts a qualitative research method, combining literature review, market situation analysis, and actual research to systematically investigate the problems found and formulate corresponding countermeasures for them.

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2. Analysis of the Trends and Causes

2.1. Market Volatility

The Chinese stock market is characterized by high volatility, which has a significant impact on investor confidence. For example, stocks in the A-share market often hit the daily limit, and some stocks have seen their stock prices depreciate since they were listed. The root cause is that most of the financiers want to make a quick profit, but they do not work hard to make the company bigger and stronger. After one to three years, the original shareholders sell off their holdings and cash out, and the retail investors suffer the most losses. The sharp fluctuations in stock prices bring uncertainty to investors, causing them to either exit the market or enter the market more cautiously. This volatility is affected by various economic environmental factors. Rapid economic growth coupled with cyclical slowdowns has created an unpredictable investment environment [1]. Macroeconomic factors, such as changes in GDP growth rates, inflation levels, and monetary and fiscal policies, directly affect corporate earnings expectations and investor sentiment.

For example, interest rate adjustments by the People's Bank of China affect a company's borrowing costs, thereby affecting its stock valuation. Regulatory changes and government intervention may bring further uncertainty, as the lack of transparency in policy implementation often exacerbates market volatility. Global economic conditions also play a role; as China's economy further integrates with the world, external shocks may lead to greater volatility in the domestic stock market.

The correlation between macroeconomic indicators and stock market performance is evident in investors' reactions to economic data releases. Positive economic news can boost investor confidence and lead to a market rebound, while negative data may trigger a sell-off. The two-factor REGARCH-MIDAS-CEPUSK model constructed by previous researchers was compared with the GARCH-MIDAS-CEPU and REGARCH-MIDAS-CEPU models constructed by previous researchers to compare the fitting effect and prediction accuracy. The four types of policy uncertainty index refined from the economic policy uncertainty index were introduced into the constructed model. Empirical analysis shows that fiscal policy, monetary policy, trade policy, foreign exchange, and capital account policy uncertainty all promote stock market volatility, that is, the higher the level of uncertainty, the greater the stock market volatility, which means that the occurrence of uncertainty is not conducive to the stock market maintaining a stable state [2]. Understanding these relationships is crucial for investors and policymakers. By understanding the macroeconomic factors that cause market volatility, strategies can be formulated to stabilize the market, enhance investor confidence, and promote sustainable growth.

2.2. Information Asymmetry

Information asymmetry in China's stock market has a significant impact on market efficiency and investor behavior. When some participants have more or better information than others, it creates an unfair competitive environment, leading to unfair trading advantages and undermining the confidence of investors with less information. Such differences usually stem from insufficient information disclosure, insider trading, and lack of transparency in corporate governance.

By establishing the APIN model, two new variables are introduced (relative to the traditional PIN model): net selling volume in the absence of news and selling volume in the absence of bad news (buying and selling operations taken by investors with or without news). After improving the measurement method of information asymmetry, it can be found that the APIN model is negatively correlated with the bid-ask spread. Combined with the market characteristics of China's stock market such as short selling restrictions and insider trading, it accurately measures the phenomenon of information asymmetry. When short-selling restrictions are relaxed, the APIN value increases due to

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the asymmetry of various situations. This can prove that information asymmetry is more prominent in China's stock market [3].

The existence of information asymmetry distorts the price discovery mechanism, thereby hindering market efficiency. Prices may not accurately reflect all available information, resulting in securities pricing errors. This inefficiency can lead to resource misallocation, as capital may not flow to its most productive uses. In addition, it can exacerbate market volatility as uninformed investors react to price movements without understanding the fundamentals.

Investor behavior is also affected by information asymmetry. Retail investors, who often do not have access to adequate information, may exhibit herd behavior, following the actions of investors who they believe to be informed. This can lead to speculative bubbles or panic selling, further destabilizing the market. Lack of trust in market fairness and transparency can discourage participation, reduce liquidity, and hinder market development.

Technological advances and the rise of financial media have the potential to narrow the information gap. However, without proper regulation, these channels can also spread false information, compounding the problem. A balanced approach is needed to encourage transparency while preventing false information to mitigate the adverse effects of information asymmetry on China's stock market.

2.3. Policy Risks

Policy risks and market mechanism defects are two major obstacles to the health of China's stock market and investment value. Frequent policy changes and regulatory interventions have brought uncertainty to the market, affecting investors' decisions and market performance. From the very beginning, the Chinese stock market has been heavily influenced by the "planned economy" and is closely related to the country's economic reforms. This gene has led to the unique characteristics of the Chinese stock market in its development, such as high policy dependence and strong participation of local governments [4]. For example, sudden adjustments to trading rules, such as modifications to the circuit breaker mechanism or restrictions on certain trading activities, can lead to a sharp market reaction. The strategy and insurance application are typically ambiguous, which causes market volatility and makes it difficult for consumers to determine placement activities. This uncertainty also has an impact on business unity, which poses yet greater difficulties for the market.

In addition to policy factors, the structural defects of the market mechanism itself have also had a significant impact on the stock market. In contrast to institutional investors ' personality in mature markets, retail investors account for the majority of the Chinese property industry's trading level. Retail investors usually lack professional investment knowledge and are more susceptible to short-term market fluctuations or speculative information, resulting in securities pricing errors. In addition, the high cost of protecting and maintaining property rights has led to the prevalence of speculative behavior, and some investors rely on "bankers" to speculate, further exacerbating market volatility [5]. At the same time, the leverage ratio of OTC financing is high, and the risk is high. The threshold is usually low, and the application is convenient, which attracts a large number of speculators to enter the market. The leverage ratio is usually higher than that of on-exchange financing, which can reach 1:10. Compared with on-exchange financing, OTC financing has higher interest rates and greater risks, but due to the lack of strict regulatory mechanisms, it has attracted a large number of speculators to enter the market, resulting in volatile market fluctuations [6]. While institutional investors ' equal has lessened the impact of long-term investment decisions on the company's tranquility, these retail investors ' social behavior is likely to cause a property bubble or a quick business collapse. Improving the defects of these market mechanisms is the key to improving the resilience and efficiency of China's stock market.

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2.4. Insufficient Investor Education and Imperfect Laws and Regulations

A lack of investor education and a dangerous legal and regulatory framework, both of which have a negative effect on China's stock market growth, are the major contributors to market manipulation and errors. The lack of comprehensive investor education means that many participants do not fully understand market operations, investment risks, or regulatory requirements. This knowledge gap makes them vulnerable to misinformation and high-risk speculative activities, thereby distorting market functions.

The inadequacy of existing laws and regulations has exacerbated these problems and failed to effectively prevent fraudulent activities. Regulatory safety deficiencies, market manipulation (especially insider trading), “pump and dump” techniques, and the spread of false information are largely due to imperfect laws. These illegal activities undermine market integrity and remove get believe because the principle of good trading is undermined.

The phenomenon of making money in the Chinese stock market is prevalent. Many companies use listing to raise funds but do not give back to investors, which harms the interests of investors. The motivation for companies to go public has changed from financing to making money, and the resource allocation function of the stock market has been seriously distorted. Due to the lack of supervision, listed companies have rampant illegal and irregular behaviors, and phenomena such as fraud and profiteering and stock price manipulation have emerged one after another. The delisting mechanism is imperfect, and disadvantaged companies cannot exit the market, resulting in inefficient market resource allocation.

Market manipulation not only affects individual investors, it can also undermine the fairness and efficiency of the entire market. It can lead to a deterioration in resource allocation and artificial price increases or deflation. The perception of unfair companies can reduce domestic and foreign investment and hinder market growth.

3. Countermeasures

3.1. Minimizing Market Volatility

Given the volatility of the Chinese dollar market, a multi-pronged strategy is necessary. One effective strategy is to increase the transparency and predictability of macroeconomic policies. By providing clear instructions on monetary and fiscal policies, this stance can reduce uncertainty and allow investors to make more informed decisions. Implementing forward guidance similar to that used by central banks in developed economies can help manage market expectations and smooth abrupt reactions to policy changes.

Another solution is to promote financial derivatives and hedging instruments. The introduction of a wider range of financial products, such as options and futures, enables investors to manage risk more effectively. These tools can help participants hedge against potential losses caused by market fluctuations, thereby helping to stabilize the market [7].

In addition, strengthening the regulatory framework to monitor and mitigate systemic risks is also crucial. Mechanisms such as stress testing of financial institutions and enforcement of capital adequacy requirements can enhance the resilience of the financial system. Cooperation among multiple government agencies can be strengthened to ensure a unified market regulatory approach.

Perhaps encouraging institutional investors to participate could further reduce volatility. Institutional investors such as pension funds and mutual funds usually have longer investment horizons and more complex risk management strategies. Their increased participation can balance market behavior dominated by retail investors, leading to more stable price trends.

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Increasing cross-border cooperation with domestic economic enterprises may also help absorb external shocks. By incorporating regulations and sharing information with different countries, China can better respond to changing global economic conditions that may affect its stock market.

3.2. Closing Info Gap

Improving corporate disclosure practices is essential if investors want to mitigate information asymmetry. Requiring full and timely disclosure of financial and operating information ensures that all market participants have access to relevant data. The reliability of reported information can be improved by adopting international accounting standards and improving audit quality.

Addressing information asymmetry is essential to increase market efficiency and investor confidence. Strengthening disclosure requirements and strengthening regulatory oversight to curb insider trading and other illegal activities are also essential and promoting better corporate governance practices are essential steps. By ensuring that all participants have equal access to relevant information, stock markets can operate more efficiently, and prices will reflect true value based on comprehensive data [8]. Advanced monitoring technology can be used to establish severe punishment and increase the likelihood of problems getting discovered to prevent vulnerabilities. Establishing whistleblower programs with protection and incentives can encourage reporting of unethical behavior.

Supporting corporate governance transparency is another important step. Encouraging independent board members, strengthening shareholder rights, and requiring disclosure of ownership structure can reduce conflicts of interest and improve decision-making processes. Investor trust is boosted by transparency in corporate governance and improved business methods.

Using technology to disseminate information can further reduce asymmetry. Developing centralized platforms where companies can publish information, and investors can access data can help create a level playing field. In addition, promoting financial education platforms that can explain complex information can help less informed investors understand market dynamics.

China can emulate better market examples around the world and participate in international financial reporting initiatives to improve the quality and accessibility of market information.

3.3. Improving Market Mechanism

To minimize policy risks, it is necessary to develop a more uniform and clear policy-making strategy. Governments should engage in open dialogue with market participants and provide advance notice of major regulatory changes. Implementing a structured consultation process can reduce unexpected market disruptions by providing feedback and adjustments before policy is finalized. At the same time, deepening market-oriented reforms and reducing administrative intervention are also essential. The market should be dominated by market regulation and supplemented by government intervention. Excessive administrative intervention not only tends to protect inefficient enterprises, but also distorts market prices and affects the rational allocation of resources [9]. Therefore, reducing intervention can provide market participants with a more stable and predictable environment.

By shifting the investor base toward a higher proportion of institutional investors, the market mechanism can be reformed to address structural deficiencies. Of course, to diversify the market and promote stability, the development of mutual funds, pension funds and other institutional investment vehicles can be encouraged. Providing incentives such as tax breaks or relaxing regulatory barriers can attract more institutional participation. At the same time, strengthening investor protection measures can also improve the market mechanism. Implementing a strong investor compensation program and enforcing regulations to protect minority shareholders can enhance market confidence. Because of a clear, conditional legal solution, users may be confident in their investment.

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An important measure to improve market stability is to develop advanced trading systems and infrastructure to support market efficiency. Upgrading technology to handle high-frequency trading and implementing real-time monitoring systems can prevent technical failures that could cause market disruptions. In addition, educational campaigns for retail investors can reduce speculative behavior. Providing resources and training on the importance of investment strategies, risk assessment, and long-term planning can cultivate a more informed investor base, making them less prone to impulsive trading. Through the above reforms, a more transparent, stable, and efficient market can be achieved.

3.4. Better Investor Education and Legal Framework

Improving investor education is essential to fostering a healthy stock market. Government agencies, financial institutions, and educational organizations should work together to develop comprehensive financial literacy programs. These programs can cover topics such as basic investment principles, risk management, and understanding financial statements. Providing seminars, online courses, and information materials in accessible formats can ensure broad coverage.

Strengthening the legal and regulatory framework is essential to preventing market manipulation and irregularities. Although my country's Securities Law clearly stipulates a civil liability system for manipulating securities markets, due to various practical reasons, the relevant supporting judicial interpretations and trial rules are still absent, and there are only a few judicial cases available for study in practice [10]. In such a practical situation, it is even more necessary to update the law to fill existing loopholes and align penalties with international standards to improve law enforcement efficiency. Establishing a financial court or tribunal that specializes in handling complex financial cases can speed up legal proceedings and increase conviction rates.

Strengthening the capacity of regulatory agencies such as the China Securities Regulatory Commission is also important. Providing sufficient resources, training, and powers enables regulatory agencies to proactively monitor the market. Implementing advanced data analysis and monitoring technologies can help detect irregular trading patterns that indicate manipulation. For example, on September 18, 2024, the Federal Reserve's two-day monetary policy meeting ended and announced that the target range of the federal funds rate would be lowered from 4.75% to 5.00%. The rate cut may drive some international capital into the Chinese market. In the short term, the inflow of capital may push up stock and real estate asset prices and drive the market up. However, correspondingly, capital flows and changes in the external market environment may also increase market volatility. At this point in time, the Chinese government needs to promulgate some laws and regulations to strictly control illegal market manipulation and stock market transactions and control these violent fluctuations within a certain range to ensure the healthy operation of the stock market.

If investors want to reduce violations, investors can try to enforce a culture of compliance within financial institutions. Require companies to set up internal compliance departments, conduct regular audits and adhere to ethical standards to ensure that their business is ethical. Through archiving programs, economic experts can learn more about the importance of ethics and social obligations.

Calling for public participation in the regulatory process can increase transparency and trust. Investors are also consulted on proposed regulations and policy changes, which in turn increases investor ownership and cooperation. Public awareness campaigns that highlight the consequences of market manipulation can also deter potential violators.

International cooperation is another way to strengthen the legal framework. Calls on countries to join global initiatives to combat financial crime and share information with foreign regulators can help track and prosecute cross-border crime. Learning from and adopting best international regulatory and enforcement practices can effectively enhance the credibility of China’s commitment to a fair and transparent market.

However, increasing investor education is vital to help individuals to make informed choices and determine fraudulent schemes. Educational activities is foster conscience, foster responsible investment practices, and advance financial literacy. At the same time, strengthening the legal and regulatory framework is essential to address market manipulation and violations. Implementing stricter regulations, increasing transparency, and strengthening enforcement mechanisms can deter illegal activities and promote a fair-trading environment.

By utilizing these actions and choices, China properly addresses the primary reasons of the problems that were raised in earlier chapters. Lowering market volatility, reducing information asymmetry, increasing policy risks and business issues, growing market confidence, getting a wider variety of traders, and strengthening investor education and legal systems are important techniques to building strong, good, and good investment locations that help sustainable economic growth.

4. Conclusion

The important issues that the Chinese stock market heads include market volatility, information asymmetry, policy risks, market mechanism defects, little investor education, and an insufficient legal framework that causes market manipulation are examined in this report. Comprehensive solutions are proposed, such as increasing policy transparency, improving disclosure practices, reforming market mechanisms, strengthening investor education, and strengthening legal supervision. The Chinese stock market is anticipated to grow even more and become more included with the global financial system in the near future. With more domestic and foreign investment, the application of these techniques can stimulate a more stable, useful, and good business. The government plays a vital role in this transformation by ensuring policy consistency, advancing regulatory reforms, and supporting investor education initiatives.

The core findings highlight the importance of addressing structural and regulatory deficiencies to promote sustainable market development. Nonetheless, this study also has limitations, including the rapidly evolving financial landscape, which may affect the relevance of our recommendations. Future research can focus on quantitative analysis of policy effects, the role of FinTech in reducing information asymmetry, and comparative studies with other emerging markets. By further exploring these areas, stakeholders can contribute to the development of the Chinese stock market, ensuring that it remains a key factor in the country's economic growth and stability.

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