

Market Efficiency in the UK Emerging Financial Markets

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Abstract: The UK financial market system is huge, more clearly divided and more functional. Under the impact of the world financial innovation trend and the increasing competition in the international financial market, the UK financial market has made quite bold financial innovations. The internationalization trend of the UK's emerging financial market, capital market and London foreign exchange market are all strengthening. The efficiency of financial markets has a significant impact on the effective functioning of financial markets and thus on the efficiency of real economic operations. Market efficiency is influenced by a variety of factors. This paper examines market efficiency in detail from the perspectives of resource allocation theory, incomplete information theory, institutional economics theory and behavioral economics theory, and concludes that market efficiency is the result of a combination of factors such as resource allocation, and information, economic behavior. According to the efficient market hypothesis, investment decisions are largely determined by market efficiency. However, even the most developed financial markets in the world today are hardly guaranteed to conform to the perfect competition hypothesis. In summary, the study of market efficiency issues has far-reaching practical implications for the UK emerging financial markets in the transition period.

Keywords: emerging financial markets, market efficiency, efficient market hypothesis, resource allocation

1. Introduction

Emerging markets are one of the most powerful terms in the world. Emerging markets are markets with gradually improving market economy, high economic development rate and high market development potential [1]. They are the money market and capital market. Whether it is the money market or the capital market, they are only a collection of various financial institutions linked together through business. The capital markets are loosely linked by communicating the supply and demand of medium and long-term funds. Each market is highly specialized. For a long time, the UK posting has been acting as an intermediary between the UK commercial banking system and the Bank of England in the UK financial market. The British financial market system is huge, more detailed division of labor and more functional [2]. With the increasing competition in the international financial market, the British financial market has made quite bold financial innovations. The trend of internationalization of the British money market, capital market and London foreign exchange market has been strengthening. British financial institutions accept deposits in addition to sterling deposits,

and there are also a large number of non-sterling deposits. Therefore, in addition to the British pound money market, a European money market has been formed in the British financial market. The two markets develop in parallel, influence and promote each other. The development of the European money market has been crucial to the development of the UK financial market, which has enabled UK financial institutions to earn substantial profits in international lending business, while further strengthening London's position as a major international financial center. The next part will focus on the origin of the concept of market efficiency in the UK [3].

2. Literature Review

The question of whether markets are efficient originated in the 1960s. As most studies concluded that capital markets were efficient. In 1965, Fama first mentioned the concept of efficient markets [4]. In the following decades, more and more studies began to reject the weak, semi-strong, and strong forms of the hypothesis. In 1970, Fama further proposed the efficient market hypothesis, which stated that a market is said to be efficient, if in a securities market, prices fully reflect all available information. All the factors include information about the company, the industry, the domestic and world economy, and the price of the security. All publicly available information, all private or internal nonpublic information are available to individuals and groups. Efficient markets are defined as a market with a large number of rational, profit maximizers actively competing, each trying to predict the future market value of individual securities [5]. All participants have almost free access to current and important information. In 2003, Malkier defined an efficient capital market as one in which prices adequately reflect all known information, and in which even uninformed investors who buy a diversified portfolio within the range of prices offered by the market will earn as good a rate of return as those obtained by experts.

3. Methodology

This paper examines in detail the issue of efficiency of the emerging British market from the case of the theory of resource allocation methods, incomplete information theory, institutional economics theory, and behavioral economics theory, and it analyzes and discusses the performance of the British financial market over the years, arguing that the efficiency of the market is the result of a combination of factors such as resource allocation methods, information, institutions, and economic human behavior. The financial industry mergers and elimination accelerated the rapid expansion of these traditional industries in the past two main driving forces. One is the boom in international trade, Britain has been firmly holding the position of maritime hegemony [6]. Since the middle of the 16th century, the British were actively moving to the sea, developing their maritime power and actively exploring new routes. They firmly believed that sailing to the northeast and northwest could also reach India. Through unremitting efforts, England finally opened up the trade routes that were previously monopolized by other countries and opened up trade channels with other countries, which led to closer trade among countries and the development and prosperity of international trade. Throughout the 17th century, the East India Company played an important and irreplaceable role in Britain's foreign trade, especially with Asian countries. It strengthened Britain's maritime power, opened up the Asian market, fought against the maritime hegemony of Portugal and the Spanish, and also laid the foundation for Britain's subsequent expansion in North America. The British government, adventurers, and merchants were all beneficiaries of Britain's colonial trade, and were bound to actively promote the development of Britain's trade, finance, and transportation industries. For the British trade and finance and international transport industry brought prosperity, second is the growth of urban residents. The industrial revolution has promoted the urbanization of Britain, and the urbanization rate of Britain rose from 34% to 78% in 100 years. The analysis of the development of

the UK financial market shows that the trend of the financial industry and the growth of different models show that the UK Internet finance has certainly reached the limit of expansion and is opening up the boundaries of growth. At the same time, the poor efficiency of the financial market for economic development is a more serious and more important issue. The current financial markets are poorly equipped to meet investment and financing needs and are not easily accessible. It is difficult to meet the needs of various types of financiers (e.g., businesses, banks, and governments) in the market, and the requirements of various investors are difficult to be met through the market, and their participation in market activities is fraught with obstacles and requires a great deal of time and effort.

4. Analysis

Since the number of securities determines the upper limit of the completeness of a country's financial market, the completeness of a financial market is directly related to the number of securities in the market [7]. In addition, there are many strict assumptions in the perfect market model. In reality, these theoretical assumptions are themselves preconditions that affect the efficiency of financial markets. For example, markets with high transaction costs usually have lower efficiency, while the ability of financial markets to innovate and their resilience to shocks, etc. are also important factors in determining the efficiency of a country's financial markets. Modern finance believes that all decision makers in the economy seek to maximize individual welfare, and financial markets, as an institutional arrangement to facilitate resource allocation, follow the Pareto standard in evaluating their efficiency. If financial allocation achieves Pareto efficiency, all investors can quickly find the most satisfactory investment objects in the system based on their endowments, expected level of return, tolerable risk and future expectations, etc. At the same time, all funders can also find the most satisfactory investment objects in the system based on their investment projects' capital needs and capital placement arrangements [8], expected returns of investment projects, willingness to accept the level of capital costs. All fundraisers can quickly raise the required funds in the system based on their investment needs and funding arrangements, expected returns on investment projects, acceptable cost of capital, capital structure goals, and tolerable default risk.

In modern Western economic theory, financial market efficiency refers mainly to the effectiveness of financial markets, a concept first mentioned by Fama in 1965. In this market, the external efficient market, also known as the efficient market for pricing, examines whether the price of a security responds quickly to all price-related information [9], including information about the company, the industry, the domestic and world economy, and all publicly available information. As for the theory of efficient capital markets, an efficient capital market must satisfy the condition that all information relevant to determining the price of a financial product is reflected in the market in a timely, accurate and complete manner, and that all such information is evenly distributed among all market participants. Therefore, a capital market with complete and symmetrically distributed information may be considered efficient [10]. The opposite is inefficient. Since the industrial revolution, Britain has entered the direct financial market, and along with the growth of urban residents, the direct financial market has developed rapidly. There is no doubt that the development of the direct financial market in the UK is to meet the requirements of market-oriented allocation of financial resources and financial efficiency. It is very important to enhance the allocation of financial resources market competition mechanism to improve the information conditions to improve financial efficiency. However, the construction of the British legal system and financial supervision system is not yet perfect. The cultivation of financial investment and transaction subjects still seems to lag behind the financial transaction technology which is difficult to adapt to the needs of modern financial economic development, a series of problems from a number of aspects to limit the completeness of financial information and the symmetry of information distribution, hindering the reduction of financial transaction costs. Therefore, the direct financial market may be conducive to the improvement of

financial resource allocation and financial efficiency compared with the indirect financial market, but it is still a long way from the real effective capital market [11].

In terms of how financial markets actually work, evaluating whether a country's financial markets are efficient can be measured in several ways.

Transaction costs directly affect producer profits and consumer surplus, and are a fundamental factor in determining the efficiency of financial markets [12]. In general, the average transaction cost depends on the volume of transactions [13], the number of transactions, clearing time, the modernization of equipment and the ability to organize and manage the market. The volume of transactions is large and stable, coupled with modern management, the average transaction cost is lower. While in inefficient financial markets, the number of participants is smaller, the type and number of traded goods is small. It is difficult to find an efficient combination, coupled with weak management capacity, and the average transaction cost is higher.

In general, the efficiency of financial markets depends to a large extent on the ease with which investors can find their own efficient portfolio. In the case of only a few financial instruments available for trading, investors have no choice, the market is unlikely to produce higher efficiency. If the financial market has a large number of financial instruments, the market can provide enough to make all types of investors satisfied with the efficiency of the portfolio, such a market undoubtedly has a higher efficiency [14]. Of course, it should be noted that the positive correlation between the number of products and market efficiency has a basic premise, that is, the product must have heterogeneity. If only the expansion of the number of homogeneity, not only does not help to improve the efficiency of the market, but may reduce the efficiency of the market.

The depth and breadth of financial markets are two basic dimensions to measure the scale of financial markets. The former is usually expressed in the types and quantities of financial market products, while the latter is mainly expressed in the degree of expansion of the radius of financial market transactions. Especially under the condition of financial globalization, the larger the radius of a country's financial market radiates outward, the more beneficial to the allocation of resources and capital flow on a global scale. In addition, the external trading radius of the financial market is also a basic indicator of the degree of internationalization of a country's financial market, which will ultimately determine a country's discourse and pricing power in the international financial market [15].

The various types of financial innovations that have been winding down in recent years have indeed played an important role in promoting the efficiency of financial markets, despite their different purposes. First, these financial innovations have a high degree of liquidity as their basic feature, and each has its own characteristics in terms of contract nature, maturity, payment requirements, marketability, returns, risk aversion, etc., which greatly enriches financial market transactions and promotes the activity and development of financial markets. Secondly, financial innovation improves the convenience of investment and financing, saves transaction time and costs, and makes investment and financing activities more convenient and fast. Innovative financial markets can provide convenient and efficient investment portfolios for most rational investors [16]. Therefore, financial markets with high innovation capacity usually have higher efficiency.

The modern economic and financial environment is becoming more and more complex due to the development of financial innovations, the strengthening of international economic ties, and the increase in technological means and transaction methods. Correspondingly, the risks embedded in modern financial markets are also becoming more and more complex. In this context, financial markets must have the ability to change with the changing economic environment and to effectively manage different types and nature of risks. For an efficient financial market, it is possible to manage non-systemic risks by using a wide range of product portfolios on the one hand, and to deal with systemic risks by increasing the resilience of financial markets on the other [17].

An important function of financial markets, especially stock markets, is the timely and rapid dissemination of information, and it is by performing this function that financial markets are truly connected. The fundamental issue to improve the effectiveness of financial markets. A good information disclosure system can promote the improvement of accounting and auditing systems and make the pricing of financial markets more responsive to the various changes in the supply and demand of funds.

5. Conclusion

As an important part of the market economy system, an effective financial market reflects the efficiency of market economy operation and the degree of market economy development. Through the analysis of this paper, it can be found that in an effective financial market, the price of funds can correctly and timely reflect the changes in market supply and demand, and promote the optimal allocation of resources, as an effective financial supervision to strongly promote the development of the national economy. The financial market can play its role. In the case of inefficient financial markets, there are many monopolies and frauds in the market, which largely inhibit investors' willingness to invest and cause chaos in the market, and bring great difficulties for the monetary authorities to regulate the market. An effectively functioning financial market eliminates these monopolies and fraudulent phenomena, builds market confidence, greatly enhances the reputation of the market, and thus effectively promotes the development of the financial market. In the current financial market in the UK, there are still government action, insider information, excessive speculation, lack of financial instruments and many other problems, and the efficiency of the market is reduced, so it is an underdeveloped market, immature market, unregulated market, and imperfect market. This requires the government to further develop and improve the corresponding laws and regulations, strengthen the supervision of the market, develop a variety of financial instruments, cultivate rational market players, and do a good job in the management and dissemination of information, so as to comprehensively improve the efficiency of the UK financial market and make the UK financial market a more efficient place for financing.

As for the limitations, through the review of the content of the paper, it is found that there is some lack of rigorous wording. The depth of the thesis is also lacking, and there is also a certain lack in the collection of information. In the future, the author will definitely take it seriously and consult more information to increase the readability of the paper, and also combine the practical information obtained from the social survey to further modify, and improve the paper. Especially some practical application cases, they should be combined in a large amount of information to enhance the persuasive power of the paper and improve the application guidance value of the paper.

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