Chapter 8
The Determinants of Stock Market Development in Emerging Economies: Examining the Impact of Corporate Governance and Regulatory Reforms (I)

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ABSTRACT

“The chief concerns of EMEs (emerging market economies) in relation to their financial systems remain developmental rather than regulatory: increasing financial savings to accelerate growth and development, and deepening their financial system to develop long term funding instruments for infrastructure financing, absorb large inflows of capital to counter the uphill backwash from EMEs to AMEs, reduce the cost of capital and reduce the leads and lags in monetary policy transmission. Advanced market economies (AMEs), on the other hand, need major regulatory changes that inoculate them more effectively against the new risks their financial systems face.” As well as investigating these observations, this chapter is aimed at investigating the validity of Efficient Markets Hypothesis and Efficient Capital Markets Hypothesis in emerging economies – as contrasted with advanced market economies. In so doing, it aims to contribute to the extant literature on stock market liquidity and liquidity in capital markets.

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As well as investigating these observations, this chapter is aimed at investigating the validity of Efficient Markets Hypothesis and Efficient Capital Markets Hypothesis in emerging economies – as contrasted with advanced market economies. In so doing, it aims to contribute to the extant literature on stock market liquidity and liquidity in capital markets. Results appear to confirm the theory that stock market liquidity impacts and influences the ability of the market to fully reflect information.

Recent financial regulatory reforms which embrace Basel III regulations and Volcker rules – along with their impact and the issues presented for EMDEs (emerging market and developing economies), will be also considered in this chapter.

Sheel and Ganguly (2016:197) also argue that the immediate impact of recently introduced financial regulatory reforms are most likely to take effect in the “relatively lightly regulated AMEs”, rather than, in their opinion, the more tightly regulated EMEs.

The literature review section however, highlights concerns which have been expressed by EMDEs (emerging market and developing economies) as a result of recent regulatory reforms. This also raises concerns as to whether such reforms may have had greater far-reaching unintended consequences which are currently impacting the growth of these economies than originally expected or anticipated.

In line with the theme of the volume, the chapter will amongst other objectives, aim to contribute to the extant literature on whether capital markets in emerging markets economies, in particular, fully reflect information - hence demonstrating and highlighting the validity of the Efficient Markets Hypothesis (as well as the Efficient Capital Markets Hypothesis).

It will attempt to realize this aim by way of reference to an evaluation and analyses of determinants of stock market developments – as well as stock market liquidity.
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