Chapter VII

Co-Integration of the International Capital Markets with the Use of Information Technology: The Case of Europe

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Abstract

The purpose of this study is to explore the “revolution” that was caused by the rapid spread of information technology towards the development and co-integration of financial markets, especially capital markets. The main issue is that the IT progress and facilities enabled the last years the overreaction of the capital markets, and this phenomenon had as a result to offer to the investors a variety of investment choices. The study shall focus on the European capital markets and the impact of information technology to the key activities the capital markets implement: the structure of the trading platforms, the cross-border cooperation of the markets and the financial intermediaries, at a theoretical and practical framework.
Description of the Basic Applications as a Result of the IT Development

The basic means of technology that are widely used in the financial industry and lead to the co-integration of the financial markets are a) the Internet and b) the implementation and use of sophisticated trading platforms by the majority of the capital markets. Both means serve most of the participating groups in the market, namely the investors, the issuers and the intermediaries.

Internet

“Internet is a system of linked computer networks, international in scope, that facilitates data transfer and communication services, such as remote login, file transfer (FTP), electronic mail (e-mail), newsgroups and the World Wide Web. The Internet greatly extends the reach of each connected computer network” (www.netlingo.com).

Internet technology has brought a huge evolution to everyday activities. The financial services industry is also influenced by the tools and accessories that Internet offers to the activities of the industry. With the use of the Internet, the nature of securities transactions becomes “non-physical”, while it offers interactivity and dissemination of information to every direction. IT allows vast quantities of financial information to be available anywhere anytime. The importance of this issue is significant, because the information business is one of the fundamental services provided by financial intermediaries. Moreover, it offers more opportunities for diversification, as the investors can trade not only domestically, but globally as well. Foreign competitors can penetrate the local markets, and as a result the process of price formation is more transparent. The market transparency results to more volatile stock prices and financial flows, because market participants can react immediately to new information.

The main characteristics of the Internet, as far as the financial industry is concerned, are the following:

1. First of all, the cost for both acquiring information about the markets and the issuers, as well as the trade of shares, is decreasing (a parameter that applies to the European Markets). The World Wide Web provides the investors with all the necessary information they need in order to proceed to securities transactions. As far as the issuers are concerned, they can attract new investors by disseminating detailed information about their company, quickly and with low cost.

2. The second issue to be addressed is the communication between the market participants. Internet provides important tools, such as the electronic mail, the Web sites and the “File Transfer Protocol”, well known as FTP, which assist the market participants to communicate, to provide information about the services they offer, (for the issuers) to present their company, its activities and the future potentials,
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