Welcome to our presentation on Does Crime Pay? This presentation is on the Co-Evolution of Insider trading and its regulation.

So, starting off with a bit of background how we decided to investigate this topic.

During the early weeks of our brainstorm sessions, a couple of us started our behavioural finance module where we were discussing insider trading and the regulations put in place. We thought this would be an interesting topic to investigate by linking game theory with behavioural finance.

So, the next question is, what is insider trading?

Insider trading is the practice of purchasing or selling a company’s securities while in possession of information that is not yet publicly available.

For example, learning about a company’s merger via dinner with the CEO. Let’s say you received all this inside information, traded using this information and therefore made money from doing so – this is known as insider trading

Insider trading is illegal and being caught can result in fines or potentially prison time, having a max sentence of 10 years in the UK.

Despite it being illegal, it is not uncommon to see happening in today’s markets.

A significant case was by Albert H Wiggin in the 1920a, who shorted over 40,000 shares of his own company using companies belonging to family members to hide the trades. Wiggin then built up a position that in fact gave me a vested interest to run his company in the ground. Next came the aftermath of the 1929 financial crisis, where many different investors exited their positions of the Chase National Bank stock at the same time, resulting in Wiggin making over $4m. However, at the time there were no specific rules against short selling your own company.

This leads to the next factor of Regulators.

Regulators are established bodies by the government or other organisations that oversee the functioning and fairness of financial markets having a goal to prevent and investigate fraud, keep markets efficient, transparent, and ensuring customers and clients are treated fairly and honestly.

So, how does this have any relevance to game theory and our project?

So, this project sets out to investigate the relationship between strategies for both insider trading and its regulation.

So, we are essentially testing the effectiveness and change many different strategies between insider trading and regulation under a co-evolutionary dynamic to see if there are any superior strategies to avoid detection.

I will now pass onto Alex who will go through the method we used.