

## Module 4 - Introduction

# The Role of Global Capital Markets

## The Links Between Global Markets (Contagion and spillover)

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## Going global

Just as corporations went global, so did the markets:

- Opening up to foreign borrowers/investors
- Linking up with overseas markets (joint ventures, mergers, cross-listings)
- Clearing house pooling of risks.

Tipping point for the public:

- ✗ Unchecked misbehaving corporations and rogue traders
- ✗ Risk “pollution” and contagion
- ✗ and worse – (externally caused) financial crises.

## What’s the problem with globalization?

Increasing global synchronization of asset prices and volatilities – combined with rising market, liquidity and transparency risks – could amplify the impact of shocks on asset prices and cause more market stress.

*Problems?*

- Limited understanding of global linkages, spillovers and contagion
- An inability to forecast market failure
- Regulation not crossing borders.



## A global financial crisis

The 2008 financial crisis has been blamed on the financial system (markets, institutions, participants) with individuals, small businesses, and corporations as its direct victims and the public as its collateral damage.

*Was it new?*

*How did it happen?*

*Were markets to blame?*

*Are there long-term damages?*

*What has been done to avoid the next one?*

## The future is here

(Disruptive) Technology has transformed capital markets from about 1990.

- Global reach and interconnectedness
- Online (and mobile phone) trading platforms
- High Frequency Trading and algorithmic trading
- Integrated equity/debt/FX/commodity markets
- New markets emerge (energy, emissions ...)
- Informal capital markets and shadow banking.

But regulation has struggled to keep up ...



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