## Module 4

# The Role of Global Capital Markets

## Globalization
## (Finance knows no borders)

Presenter: Paul Kofman

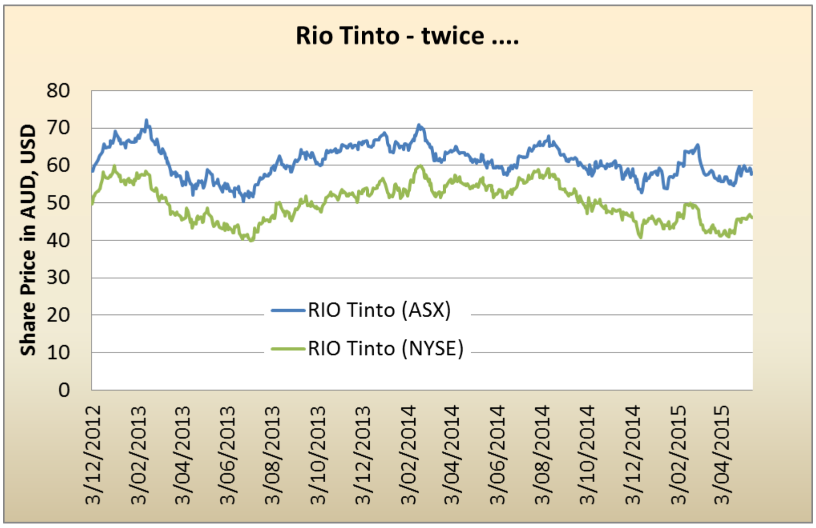
## Why globalization is good for you …

Capital markets are increasingly global, allowing free access to international issuers and investors.

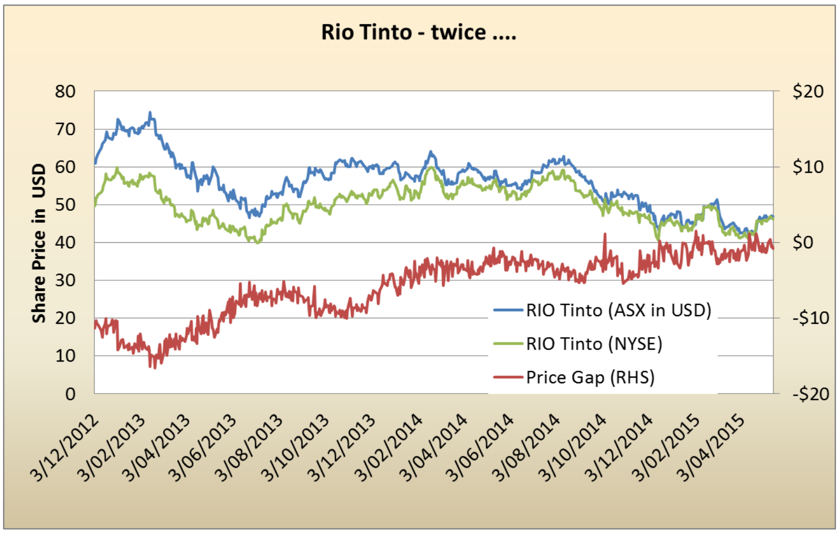
The globalization of financial markets:

- ✓ Enhances corporate funding opportunities
- ✓ Allows funding to flow unhindered to the optimal investment opportunity
- ✓ Allows investors better risk diversification
- ✓ Reduces the cost of financing
- ✓ Allows the exchange and adoption of best practice in market design
- ✓ Improves transparency (e.g. in commodity markets) when demand/supply is global.

## Corporations have global owners




## Where you trade doesn't matter



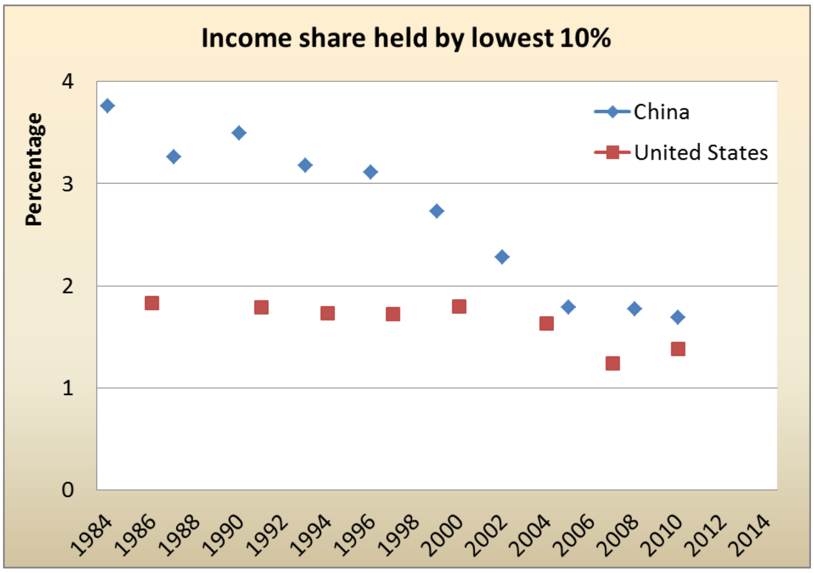
## Why globalization can be bad for you…

Occupy movement (the *99 percent*) have highlighted concerns.

Financial liberalization/deregulation may have stimulated economic growth through a “credit boom,” but …

- ✘ Increasing income inequality
- ✘ Globally operating corporations “misbehaving” and not being held accountable
- ✘ Lack of screening/monitoring of credit risk
- ✘ Harder to “follow the money” for corporate owners and regulators
- ✘ Opportunistic approach to (local) regulatory loopholes.

## Growth but not fairly distributed



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## The un-accountable…

Disquiet about globalization dates back a few decades:

***Rogue traders*** trading global markets, jeopardizing the survival of their overseas bank

- Barings Bank in 1995.

***Hedge funds*** "attack"

- The British Pound in 1992 – causing the UK's exit from the European exchange rate mechanism
- The Hong Kong Dollar in 1997 Asian financial crisis – using multiple markets (equity, currency, derivatives).


## Other worries…

Globalization has undermined efficient markets causing:

***(Rational) asset bubbles***
When price diverges persistently from fundamental value – in housing, currency, (bio)tech and internet stocks.

***Behavioral errors***
Investors and lenders make "irrational" decisions – irrational exuberance, over-confidence, loss aversion, etc.

Leading to a misallocation of scarce resources, and market interruptions/misfires/crashes.

## Source list

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Rio Tinto - twice graph. Share price in AUD, USD over time. Prepared by Paul Kofman from data sourced from Yahoo!7 Finance (https://au.finance.yahoo.com/). © The University of Melbourne.

Slide 6:
Income share held by lowest 10%. Prepared by Paul Kofman from data sourced from Income share held by lowest 10%. The World Bank (http://data.worldbank.org/indicator/SI.DST.FRST.10?page=6&display=default). © The University of Melbourne.

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