Module 3 - Introduction

The Role of Global Capital Markets

Financing Opportunities and Constraints (Limits to growth)

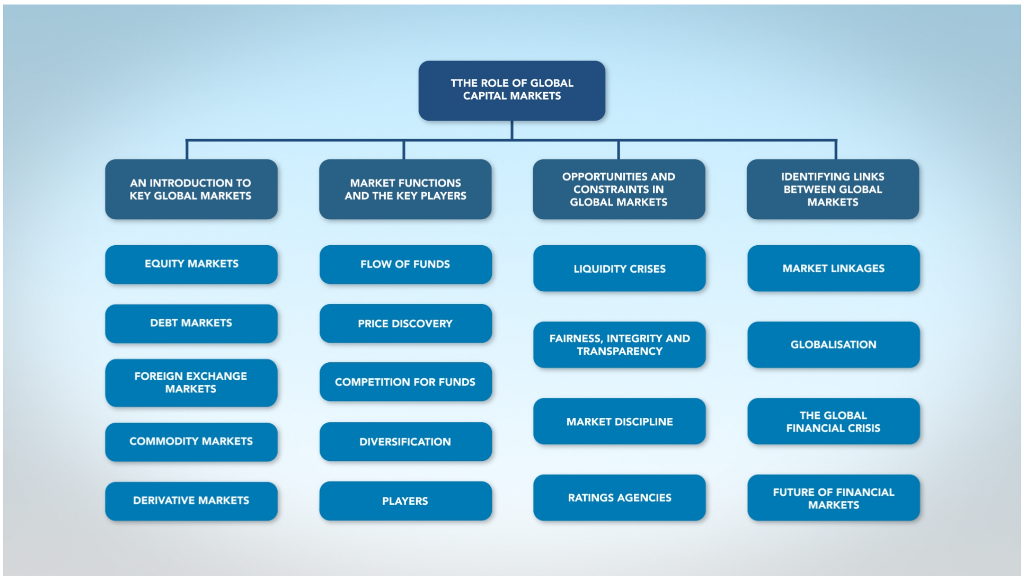
Presenter: Paul Kofman

The brakes on economic growth…

Markets are engines of economic growth,

BUT:

- There is good and then there is uncontrolled economic growth
- It's all about liquidity
- Trust and integrity underpin efficient markets
- The long arm of governance and agency
- *Is there such a thing as independent rating agencies?*
- Regulators can only do so much…



This time it's different

A bit of history reveals repeat episodes of market failure:

- *Tulipmania*
- *South Sea Bubble*
- *Commodity market corners*
- *19th Century banking panics*
- *The Crash of 1929 (Great Depression)*
- *Black Monday, October 1987*

And these are just the better knowns.

Just as there are business cycles, there seem to be market cycles too – just as unpredictable, just as hard to time…

Liquidity evaporates and businesses run dry

What happens when liquidity dries up – and how does that affect corporations?

In a crash, everyone wants to sell, but no one wants to buy…

1. Market becomes one-sided
2. Prices drop
3. Liquidity (volume, number of transactions) disappears
4. Price signals become unreliable – no longer reflecting intrinsic value
5. Corporations can no longer find investors
6. Markets “close down.”

Fairness, integrity, transparency

But even in the absence of a crash, markets can fail to provide their core functions:

- Insider trading
- Market manipulation
- Flash crash

Market participants’ trust in the integrity of markets, relying on:

- Public access to all relevant information
- Issuers of securities to be held accountable
- Effective competition, and
- Absence of manipulation
- Effective and efficient regulation.

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