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INCENTIVES FOR CONSUMERS TO ENGAGE IN THE DERIVATIVE MARKET IN HAINAN, CHINA

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ABSTRACT

Using a survey instrument, they learned that there is diversity in the ownership structure of derivatives exchanges, that exchanges are regulated either directly or indirectly by a government law, and that the most common, though not exclusive, market-making system is based on open outcry with daily mark-to-market and gross margining. The use of electronic technologies, however, is becoming more commonplace in the marketplace. Some marketplaces have said that they own their clearing houses and use netting settlement processes. Yet, this format is common throughout markets. The findings confirm the researchers' hypothesis that central financial system operations work similarly regardless of time or location, although institutional arrangements vary greatly.

The purpose of this research was to better understand the structure, aspects of market design, and traded goods of derivatives exchanges all over the globe. Facilitating the transfer of risk among economic players is a derivatives exchange's primary duty. This is accomplished via the exchange's techniques for increasing liquidity and improving the rate of price discovery. The hypothesis that different market contexts need distinct organisational configurations to carry out this role is investigated. The researchers also looked at how new derivative exchange products were released. The advent of the derivatives market is a remarkable achievement in financial engineering because it addresses the issue of risk inherent in the unpredictability of the underlying asset's price in a cost-effective and efficient manner.

KEYWORDS: An Exchange, Trade Financial Securities, Derivatives, Low Transaction Costs, Financial Market.

INTRODUCTION

All commodities and capital markets are inherently risky. The price of agricultural and non-agricultural goods fluctuates throughout time due to the competition

between supply and demand. Throughout the past two decades, worldwide commerce and industry have exploded because of the ever-increasing wave of globalisation and liberalisation. Because of this, interest rates, currency rates, and stock market prices have fluctuated rapidly, increasing the financial risk faced by businesses worldwide. An increase in financial risk may devastate a company's bottom line. Given this, risk management is crucial for minimising negative outcomes associated with ambiguity. Risk due to uncertainty and volatility in the underlying asset is effectively addressed via the use of derivatives. Derivatives are instruments used in risk management that facilitate the efficient transfer of risk from one party to another. Instruments with a derivative have no intrinsic value. The value of these things is based on the asset they represent. Any kind of asset, monetary or otherwise, may serve as the underlying asset. This research aims to open a dialogue about the inception of derivatives trading by analysing its historical evolution, the various derivatives products that are traded today, the evolution of derivatives regulation and policy, the market's current state, and its potential future growth and obstacles (Malouche, 2019).

The financial crisis, fraud scandals, and the near bankruptcy of several market players have all drawn increasing attention to the derivatives market in recent years. Policymakers and regulators have been considering ways to enhance regulation to promote transparency and safety both for derivatives and other financial instruments, even though the financial crisis was mostly caused by structured credit-linked securities that are not derivatives.

BACKGROUND OF THE STUDY

The term "derivatives" may have just recently entered the public lexicon. Despite this, they have a long history of usage by humans. From the beginning of time till now, humanity has universally disliked uncertainty. Also, the thought of economic instability was not something they were fond of. Contracts emerged out of a desire to mitigate this ambiguity. Historic contracts were oral agreements that lacked the sophistication of modern written contracts. There was a contract, however. The history of derivatives is explored here (Korinek et al., 2020).

The derivatives market has been around for quite some time. The Bombay Cotton Trade Association established a foundation for commerce in the years to come in 1875. Law now forbids all options trading and monetary settlements. as a result, the forward market for derivatives trading moved to the grey market. Since the options in securities laws (amendment) ordinance was promulgated in 1995, financial derivative trading may begin. It allows for the ban on stock options to be lifted (Ahn et al., 2018). On the proposal of the researcher committee, derivative trading began in June 2000 after receiving final authorisation from SEBI in May 2001. Two stock exchanges, NSE and BSE, together with their respective clearing house/corporation, were granted permission by SEBI to begin trading and settling approval derivative contracts.

There is often a gap between the time the item or service is supplied, and the time payment is resolved, making the extending of credit by one party to the other necessary in international commerce transactions. "Trade finance" is a broad category of banking products offered by both international and domestic banks to importers and exporters to assist them in mitigating the risks associated with making international payments and gaining access to working capital financing that is directly related to their international trade transactions. Trade credit, or the inter-company extension of credit among concerned parties, often places the risk of trade settlement on the shoulders of importers and exporters. Exporters and trade finance intermediaries may protect themselves from the possibility of non-payment by purchasing export credit insurance from either a governmental export credit agency (ECA) or a private insurance company (Narang, 2018).

LITERATURE REVIEW

The function of stock markets in economic growth has been the subject of few studies, even though many have been conducted to better understand the connection between financial development and economic growth. Most studies employed bank measures of financial development and overlooked the importance of stock markets, and this was done for several reasons, including the lack of precise stock market development indicators.

Research on the evolution of the financial sector Whether or if financial markets foster economic development is a topic that has long piqued the interest of academics and economists, leading to a variety of empirical investigations into the topic. Although some found a favourable correlation between financial progress and GDP expansion, others did not find any such link. There have been studies conducted to determine the type and direction of causation between the growth of the financial sector and the expansion of the economy, or if the growth of the financial sector encourages the expansion of the economy. This article elaborates on the theoretical connection between financial development and economic growth from the vantage point of several economists (Auboin, 2019).

Books on the Stock Market Many analyses have shown a correlation between rising stock markets and expanding economies. Through influencing factors including liquidity, risk diversification, knowledge acquisition about companies, corporate governance, and the mobilisation of savings, stock markets may boost GDP growth in the long term. While they have failed to explore the relevance of stock market development, banking sector development, and economic growth in an integrated framework, these studies reveal a substantial positive association between stock market development and growth rates of real GDP per capita. Developments in stock markets and the banking industry may have a significant impact on economic growth. The study's authors agreed with the widespread belief that a healthy stock market contributes significantly to economic growth when coupled with a robust banking system.

Credit, legal, market, liquidity, and management risks make up the firm-specific risks, while "greater competition between banks and non-bank financial institutions, greater interconnectedness of financial markets, increasing concentration of derivatives trading, the reduced disclosure of financial information through off-balance sheet activities, and increased market disturbances" are the systemic risks. The function of derivatives is a contentious topic, with many theorists arguing against their usefulness. The most common derivative types are futures, forwards, swaps, and options. Their very existence as a concept has been criticised. As a result, the author thinks it's important to grasp the historical context of derivatives in the financial sector, as well as their pervasive character throughout the evolution of the global financial system over the last several decades (Bremen, 2019).

Even though exchange rates between currencies tend to fluctuate over time, it may nevertheless pose a danger to various parties from different nations that engage in cross-border trade and business. The risk or exposures in this case “represent the sensitivity of the value of the company to exchange rate randomness.” To put it another way, the exposure is the total value of the company's assets, obligations, and cash flows that are vulnerable to adverse changes in exchange rates, and the risk of the exposure is the potential loss that might be incurred because of those changes.

Transaction costs theory has inspired a great deal of research into the topic of organisations and continues to be a primary viewpoint in the field of organisational studies. In addition, the theory of transaction costs economics is sometimes considered a component of new institutional economics. Firms are increasingly being seen as governance structures rather than producing activities, as is the current fashion in transaction costs. There is data to suggest that companies that factor in transaction expenses do better than those who don't. It was also shown that firms that adhere to the fundamental transaction costs concept are more likely to use a heavy hand. Also, transaction-cost economics has acknowledged that value-chain productivity is a function of production costs and transaction costs, and that transaction costs are substantial and have a considerable influence on economic efficiency (Yu & Hassan, 2018). From a global sourcing standpoint, businesses were buying intermediate goods from foreign vendors if doing so would save them money compared to buying locally. Thus, a supply chain's governance structure is established by transaction costs.

RESEARCH METHODOLOGY

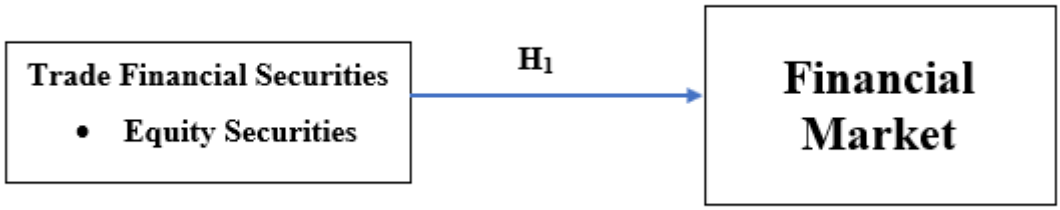
Researchers performed a comprehensive cross-sectional investigation. A single point in time's worth of data was all that was required because of the cross-sectional design. As a result of the limited time and resources available, the researcher opted for a quantitative approach. Using Rao-soft, a sample size of 600 was determined; 700 questionnaires were sent; 667 replies were received and analysed; and lastly, 19 items were deemed inadmissible because of inadequate data. There were 648 people included in the study. For the survey, we choose some people at random to

call. Expert conditions were used for the study. The study venues were chosen depending on the accessibility of the research team. The study's analysis relied on information gathered from interviews and surveys. In the following sections, we will discuss the methodology and rationale of this survey. To foresee how their brand's equity and their organisation's size will grow, respondents first completed a set of market control questions. Rao Soft's final sample size estimate was 600 participants.

To get an accurate, read on people's thoughts and opinions, surveys often use a grading system based on the Likert scale. It is common practise to offer respondents the option of picking "strongly agree," "agree," "did not react," "disagree," or "strongly disagree" in response to a statement or inquiry. Assigning numerical values to the different answer categories is common practise; in such cases, the numbers themselves must be specified for the purposes of the research at hand. For instance, a value of 5 would indicate very strong agreement, a value of 4 would indicate moderate agreement, and so on.

Motivation, or "the inner drive that motivates one to decide to act," is what pushes a person to take the initiative to do something. There is a widespread failure on the part of managers to recognise the role that inspiration plays in ensuring the fulfilment of their organisation's overarching objective and aim. When employees are content in their jobs and feel respected, they provide their very best efforts. Good things happen when people are inspired to work hard, and that inspiration spreads to others around them.

CONCEPTUAL FRAMEWORK



RESULTS

Factor Analysis:

Factor Analysis is often used to confirm the latent factor structure of a set of measurement items (FA). Latent (or unseen) factors are believed to be the root cause of the scores on the visible (or measured) variables. The approach of accuracy assessment (FA) is model based. Modelling of causal relationships between observable events, unseen causes, measurement error is its main area of interest.

A Kaiser-Meyer-Olkin (KMO) Method may be used to determine if the data are appropriate for factor analysis. To determine if they were sufficiently sampled, all model variable along with the entire model are assessed. The statistics quantify any common variance among many different variables. The data will generally be more acceptable for factor analysis the lower the proportion is.

KMO returns numbers in the range of 0 and 1. The sample is deemed adequate if KMO's value is in the range of 0.8 and 1.

The sample is inadequate if KMO's is less than 0.6, and remedial action is needed. You'll have to use your best judgement among 0.5 and 0.6 since some authors use the value 0.5 for this.

• KMO Near 0 indicates that the total of correlations is small relative to the size of the partial correlations. To rephrase, extensive correlations pose a serious challenge to component analysis.

Kaiser's cutoffs for acceptability are as follows:

Kaiser's cutoffs for acceptability are as follows:

A dismal 0.050 to 0.059.

• 0.60 - 0.69 below-average

Typical range for a middle grade: 0.70–0.79.

Having a quality point value between 0.80 and 0.89.

The range from 0.90 to 1.00 is really stunning.

Table 1: KMO and Bartlett's Test

KMO and Bartlett's Test[a]		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.961
Bartlett's Test of Sphericity	Approx. Chi-Square	4951.165
	df	196
	Sig.	.000
a. Based on correlations		

This demonstrates the validity of assertions for sampling purposes. To further verify the relevance of a correlation matrices, Bartlett's Test of Sphericity was performed. Kaiser-Meyer-Olkin Sampling Adequacy Value is 0.961. The p-value for Bartlett's sphericity test was determined to be 0.00. Bartlett's test of sphericity showed that the correlation matrix isn't an identity matrix, with a significant test result.

Test for Hypothesis

The phrase "Financial Market" is used to describe a business environment in which various forms of bonds and securities may be traded at more reasonable commission rates. Bonds, stocks, derivatives, and the foreign exchange markets are all examples of financial securities.

Since it facilitates efficient resource allocation and supplies businesses with ready cash, the Financial Market is critical to the health of a capitalist economy. The Financial Market is responsible for the efficient mobilisation of resources (money) between investors and collectors. Stocks, bonds, and ETFs are all examples of financial securities, which are negotiable and portable assets representing various forms of monetary value (ETFs). This implies that anything must be tradable on a market to be considered a security. Selling stocks is one alternative to taking out a loan for funding a project. Securities that reflect equity in a corporation are often stocks. A shareholder is the typical holder of such securities. In addition to the potential for capital appreciation, investors may expect to get dividend payments on a regular basis from holding these assets. Consider the likelihood of a sharp increase or decrease in value when contemplating an investment in a company's stock. Several factors affecting the financial market often cause these price shifts.

Based on this literature review, the researchers hypothesized the following in order to examine the link between Equity Securities and Financial Market.

H01: There is no significant relationship between Equity Securities and Financial Market.

H1: There is a significant relationship between Equity Securities and Financial Market.

Table 2: ANOVA test H_1

ANOVA					
Sum					
	Sum of Squares	df	Mean Square	F	Sig.
BETWEEN GROUPS	39935.307	184	3991.631	2274.852	.000
WITHIN GROUPS	145.093	463	1.631		
TOTAL	40080.390	647			

In this study, the result is significant. The value of F is 2274.852, which reaches significance with a *p*-value of .000 (which is less than the .05 alpha level). This

means the “H1: There is a significant relationship between Equity Securities and Financial Market.” is accepted and the null hypothesis is rejected.

CONCLUSION

All financial assets have their advantages and disadvantages from an investing perspective. Return on investment for any given level of risk is standard across the board for financial instruments. Financial experts, however, agree that diversification is crucial. Spreading money out across many assets helps keep profits steady.

The introduction of derivatives has radically altered the global financial services business, and as a result, derivatives now occupy a position of prominence among all other financial instruments. Derivatives are a useful instrument for risk management that may be used by a wide range of parties. Risk may be moved from those who would want to avoid it to those who would be willing to take it on via the use of derivatives. The introduction of stock derivatives market has been met with overwhelming optimism and success. The NSE now has more derivatives turnover than stock market turnover. Its recent expansion has far outpaced that of its worldwide analogue in recent years (Kirankabe§ & Ba§arir, 2019).

This highlights the merits of the current evolution of securities markets, which are focused on retail investor participation, anonymity, and the safety and security of electronic trading. The stock futures market is increasingly seen as having a significant impact on how prices are set. The global expansion of financial derivatives can be directly attributed to factors such as the increasing volatility of financial asset prices, the closer integration of national financial markets with international markets, the creation of more sophisticated risk management tools, the provision of a greater variety of risk management strategies to economic agents, and the introduction of novel approaches to financial engineering. The longest-serving Governor of the Federal Reserve System's thoughts on derivatives are the best approach to capture their importance and value.

The derivatives market is the fastest-growing and most-significant subset of the global financial system. Derivatives exchanges and Over the Counter (OTC) providers, which together make up most of the industry, have fuelled expansion by continuously innovating new products and services to compete for customers. In recent decades, several new competitors have entered the European market, making for a highly competitive environment. Because of this, formidable European companies have developed and now control around 44% of the world market in terms of notional amount outstanding.

According to the financial historians who provided the case studies, there are striking parallels between the problems that exist now and those that were present whenever there was a major shift in the capitalist financial system (Deloitte, 2018). Every new development in the past has forced the government, the banking system, and the financial markets to figure out how to work together to take full advantage

of the benefits brought about by the innovation. While reactions have varied over time and across nations, it is inevitable that the first decade of the twenty-first century was be remembered as the decade when global banking triumphed.

LIMITATION

For speculative and gambling purposes, derivatives' leveraged positions make high-volume trading possible for those with little resources. Gains are amplified, but losses are also amplified if the deal doesn't go as planned. The expansion of the derivatives market may be attributed in large part to speculation. Leverage in derivatives may encourage individuals to take on more risk than they can comfortably afford, which might lead to a rise in personal bankruptcies. An extensive amount of damage might be done by a single default in the derivatives market.

While derivatives were created to mitigate market risk, this exposure has grown as their use has expanded. Yet since then, the technologies have been put to mostly speculative use. In the OTC market, this is particularly true. Unfortunately, not all derivatives work as intended and protect against risk. The leveraged investments might potentially create catastrophic losses in such a scenario.

Concerns about the financial system's stability have been raised amid claims that derivatives trading has increased market volatility (Hardt, 2019). The market's stability and the people who participate in it are in jeopardy because to derivatives' sluggish expansion, which has made the market more volatile.

Derivatives were developed to aid in the process of discovering and stabilising prices; however, prices have recently shown signs of being volatile. Yet, the current state of the market is unstable since these instruments are being used for speculating. Derivatives are another factor that has contributed to larger swings. If derivatives are utilised properly, prices may become more stable. Explicit commerce is the foundation of the contemporary economic system. At first glance, the practise of commerce, and by extension the usage of currency, seems to be beneficial: When two people make a deal to exchange goods, everyone wins. At least throughout the previous 10,000 years, this has been the most common form of social organisation. Here, a computational model is used to explain the impact of wealth transfer across time. It has served us well in the past, but with the rise of values like compassion and equality, it is no longer in the best advantage to rely on it. Furthermore, it has caused enormous harm to the natural environment.

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