A FINANCIAL MARKET STUDY IS AN ANALYSIS OF A TRADING PLATFORM WHERE INVESTORS MAY TRADE FINANCIAL SECURITIES AND DERIVATIVES WITH MINIMAL TRANSACTION COSTS.

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ABSTRACT

The deregulation and liberalisation of global financial markets has led to an increase in the use of risk hedging methods and derivatives, whose values are determined by contracts that take underlying variables into account. Option traders include hedge funds, speculators, and arbitragers; the bulk of derivatives users in China are hedgers. Since FIIs (foreign investment institutions) began participating in the capital markets, mutual funds and derivatives have been more widely used. Economic activities such as price discovery and risk management are crucial in reducing volatility in financial markets. The swift integration of financial markets, the rise of information technology, and the increasing importance of services to the Chinese economy are all potential explanations for the explosive expansion of China's financial derivatives markets. Research evaluating participants' understanding and use of derivatives aimed to do just that. Research shows that smaller investors don't always know what they're doing when it comes to derivatives. So, regulators from the stock market, the banking sector, and derivatives businesses should collaborate to educate investors. Securitisation allows for the unbundling and repackaging of market risks in underlying assets, and the growing reliance on derivatives for proactive risk management by corporations impacts monetary policy and macroeconomic worries.

Keywords: *Foreign exchange, financial markets, derivatives, structure, method of international trade.*

1. INTRODUCTION

The use of derivative financial instruments for risk management in companies has increased dramatically in the last several years, mostly as a result of financial sector liberalisation and the introduction of various OTC and exchange-traded contracts. It is anticipated that this growth would have an effect on macroeconomic and monetary policy issues. Trading commodities like gold and other precious metals is made simpler by the financial market, which also facilitates the exchange of one form of currency for another. Interest rates and other pricing mechanisms facilitate the movement of resources in the financial markets as a consequence of supply and demand. The derivatives market monitors the foreign currency market's money-making, risk-transfer, and international trade facilitation operations, while the stock, bond, and warrant markets allow investors to buy and sell shares on various platforms. An institutional framework that allows the monetary system to borrow and lend long-term funds in the form of common stock shares is the capital market (Fligstein, 2021). It makes it easier to trade such shares as well. In contrast to the stock market, which issues shares of common stock, bond markets promote bond trading. In both types of markets, investors may choose to purchase common stock or shares in order to raise cash. The increasing internationalisation of the economy has made many companies increasingly vulnerable to fluctuations in the value of their home currencies. A record number of loans and deposits have contributed to China's booming economy. An important factor in the dramatic increase in the ratio of total financial assets to GDP during the last 30 years is the expansion of total financial assets. An aspect that has contributed to China's economic success is the country's export industry, which has expanded by a factor of 63 since 1987. However, even if the sector has achieved a lot, the development rate of China's export commerce has been somewhat unstable and unfriendly in certain years. Compared to 2015 and 1998, 2016's export increase of 7.5% was far bigger. This indicates that the external economic climate has reduced the competitiveness of China's export goods (Sun, 2020).

2. BACKGROUND OF THE STUDY

Investments including stocks, bonds, debentures, insurance, and mutual fund shares are crucial for a nation's sustainable growth. In addition to boosting production generally, they make the economy more competitive on the international stage. Despite the fact that financial market investment might significantly impact China's economic growth, many Chinese citizens still have not begun to do so. Retail investors, often known as individual investors, risk their money on the stock market with the expectation of a future return. Their personal feelings towards an asset are expressed when they talk about their ideas on it. The way investors feel about brokers, the market, and other investment opportunities greatly impacts their investing decisions. Twenty-two individual stockbrokers in China founded the world's oldest stock market in 1875. Ever since then, the Chinese stock market has seen unprecedented growth, solidifying its position as a strong rival on the global stage. The capital market, which encompasses both the main and stock markets, is the main engine that drives economic development. Following the issuance of shares or assets on the main market, investors have access to a secondary market where they may trade on the stock exchange. Individuals may potentially contribute to a country's economic growth by investing in a variety of financial products (Jin et al., 2020).

3. LITERATURE REVIEW

Historically accepted explanations for international commerce have focused on the roles played by technology, location, and natural resources. However, when calculating comparative advantage, these models disregard the enormous financial resources. Academics started to consider the potential impact of rising currency prices on international commerce as they gained more knowledge. The idea that credit drove the rise of international commerce was first introduced by Kletzer and Bardhan (1987), which prompted empirical examination at the national, industrial, and company levels. An important step forward in economic theory, according to Stiglitz (2000), is the informational efficiency of security pricing. The Efficient Market Hypothesis (EMH) states, formally, that stock prices accurately represent all material facts. According to proponents of the random walk hypothesis, market returns and price changes for securities are completely at random and unpredictable. With information spread out across investors throughout time, future returns should only reflect knowledge that is accessible in the future; returns of the past, present, or any other kind should have no bearing on these returns. Given the inherent uncertainty of data, it stands to reason that security investment returns will also be hard to foresee. The price of an asset should reflect its expected return on investment, taking the asset's risk into consideration, if this school of thinking is to be believed. Assets that are anomalous when considering their exposure to risk shouldn't be able to benefit investors in securities with such prices, regardless of the use of technical and/or fundamental research. This is true regardless of whether they do basic or technical analysis (Gao et al., 2021).

4. RESEARCH QUESTION

- ❖ How have financial commitment affected the Chinese financial market?

5. RESEARCH METHODOLOGY

Quantitative research refers to studies that examine numerical readings of variables using one or more statistical models. The social environment may be better understood via quantitative research. Quantitative approaches are often used by academics to study problems that impact particular individuals. Objective data presented in a graphical format is a byproduct of quantitative research. Numbers are crucial to quantitative research and must be collected and analyzed in a systematic way. Averages, predictions, correlations, and extrapolating findings to larger groups are all possible with their help.

5.1 Research design: In order to analyse quantitative data, SPSS version 25 was used. The direction and severity of the statistical association were determined using the odds ratio and the 95% confidence interval. researchers reported a statistically significant level at $p < 0.05$. To identify the primary features of the data, a descriptive analysis was used. Data acquired by surveys, polls, and questionnaires, or by modifying existing statistical data using computing tools, is often assessed mathematically, numerically, or statistically using quantitative methods.

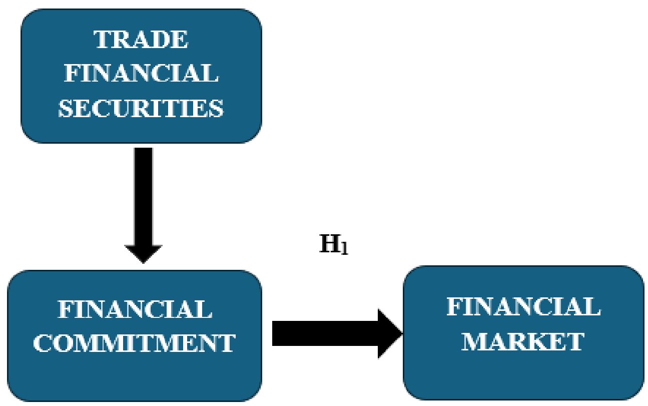
5.2 Sampling: After pilot research with 32 Chinese Researcher, 630 Rao-soft pupils were included in the final Investors. Male and female Researcher were picked at random and then given a total of 931 surveys to fill out. A total of 762 questionnaires were used for the calculation after 788 were received and 26 were rejected due to incompleteness.

5.3 Data and Measurement: A questionnaire survey functioned as the primary data collection instrument for the investigation. The survey had two sections: (A) General demographic information and (B) Responses on online and non-online channel factors on a 5-point Likert scale. Secondary data was collected from several sources, mostly focusing on internet databases.

5.4 Statistical Software: The statistical analysis was conducted using SPSS 25 and MS-Excel.

5.5 Statistical Tools: To grasp the fundamental character of the data, descriptive analysis was used. The researcher is required to analyse the data using ANOVA.

6. CONCEPTUAL FRAMEWORK



7. RESULT

❖ Factor Analysis

One typical use of Factor Analysis (FA) is to verify the existence of latent components in observable data. When there are not easily observable visual or diagnostic markers, it is common practice to utilise regression coefficients to produce ratings. In FA, models are essential for success. Finding mistakes, intrusions, and obvious connections are the aims of modelling. One way to assess datasets produced by multiple regression studies is with the use of the Kaiser-Meyer-Olkin (KMO) Test. They verify that the model and sample variables are representative. According to the numbers, there is data duplication. When the proportions are less, the data is easier to understand. For KMO, the output is a number between zero and one. If the KMO value is between 0.8 and 1, then the sample size should be enough. These are the permissible boundaries, according to Kaiser: The following are the acceptance criteria set by Kaiser:

A pitiful 0.050 to 0.059, below average 0.60 to 0.69

Middle grades often fall within the range of 0.70-0.79.

With a quality point score ranging from 0.80 to 0.89.

They marvel at the range of 0.90 to 1.00.

Table1: KMO and Bartlett's Test

Testing for KMO and Bartlett's

Sampling Adequacy Measured by Kaiser-Meyer-Olkin .867

The results of Bartlett's test of sphericity are as follows: approx. chi-square

df=190

sig.=.000

This establishes the validity of assertions made only for the purpose of sampling. To ensure the relevance of the correlation matrices, researchers used Bartlett's Test of Sphericity. Kaiser-Meyer-Olkin states that a result of 0.867 indicates that the sample is adequate. The p-value is 0.00, as per Bartlett's sphericity test. A favorable result from Bartlett's sphericity test indicates that the correlation matrix is not an identity matrix.

Table: KMO and Bartlett's

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.867
Bartlett's Test of Sphericity	Approx. Chi-Square	3252.968
	df	190
	Sig.	.000

As this demonstrates, claims made in order to conduct a sample are legitimate. Researchers used Bartlett's Test of Sphericity to verify that the correlation matrices were relevant. According to Kaiser-Meyer-Olkin, a sample is considered acceptable when the result is 0.867. According to Bartlett's sphericity test, the p-value is 0.00. The correlation matrix does not equal an identity matrix, as shown by a statistically significant result from Bartlett's sphericity test.

❖ Independent variable

Trade Financial Securities

One may use the word "security" to describe a wide variety of assets, including stocks, bonds, notes, investment contracts, and derivatives. Bonds reflect a creditor connection with a government body or company, stock represents ownership in a firm, and options represent rights to ownership. Contracts representing tradable financial assets are known as financial securities. Financial assets may take many forms, including stocks, bonds, mutual funds, ETFs, options, futures, derivatives, foreign currency, and exchange-traded funds. When one's financial situation is stable, they no longer have to worry about becoming bankrupt. When things go wrong or cost more than intended, it's there to help (Geng et al., 2021).

- **Factor**

Financial Commitment

Recognising a payment responsibility in the future is what a financial commitment is all about. Establishing monetary obligations permits: Take a look at the remaining funds and the budget. The researcher may determine the percentage of completion by comparing the expected final cost with the actual cost-to-date. Cheerleading mostly serves a department that has a limited financial commitment to its existence, making the spirit-athletics strategic partnership an unfair one (Allen et al., 2020).

- **Dependent Variable**

Chinese Financial Market

Both Shanghai and Shenzhen are major financial centres in China. Despite facing competition from more long-standing exchanges, both bourses have grown into significant trading centres since their establishment in 1990. Despite having a smaller market capitalisation than the Hong Kong Stock Exchange, their turnover was much higher. China Financial Markets provides an in-depth analysis of the world's largest and most consequential economy. Michael Pettis, a Carnegie Senior Fellow based in Beijing, edits China Financial Markets, a monthly publication that offers insights into issues such as income inequality, market processes, and other global economic trends affecting China and other countries. Among the many respected experts on China's economy, Pettis teaches finance at the Guanghua School of Management at Peking University. The financial markets of the nation are the primary focus of the researcher (Mo et al., 2020).

❖ Relationship between Financial Commitment and Chinese financial market

To name a few things that can be traded in China's financial markets: bonds, stocks, shares, foreign currency, and derivatives. Through these channels, companies looking for capital may potentially connect with investors. When deciding where to put money, optimising its value is priority number one. Strategic approaches to funding investments and expenses are fundamental to financing decisions. Companies often raise cash via three primary channels: existing capital, loans, or stock sales. Some examples of financial items that may be exchanged in financial markets are bonds, equities, the many global currencies, and derivatives. Those who are strapped for cash and those who have enough of it could cross paths in the financial markets. An investor is someone who puts their money into a business or other organisation in the hopes of getting some kind of financial reward. The ideal investment strategy would include limiting losses while increasing gains. A speculator, on the other hand, is willing to take a risk with an asset in the hopes of making a bigger profit (Kroeber, 2020).

- ***H_{01}: There is no significant relationship between financial commitment and Chinese Financial Market.***
- ***H_1: There is a significant relationship between financial commitment and Chinese Financial Market.***

Table 2: H_1 ANOVA Test

ANOVA					
Sum					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	39588.620	320	5665.518	615.212	.000
Within Groups	492.770	441	5.355		
Total	40081.390	761			

The results are significant in this study. The p-value of 0.000 (below the 0.05 alpha threshold) indicates that the F value of 615.212 is almost significant. Thus, it follows that "***H_1: There is a significant relationship between financial commitment and Chinese Financial Market.***" is accepted and the null hypothesis is rejected.

8. CONCLUSION

This study analyses the size, make-up, and dynamics of international commerce in light of recent shifts in the financial industry. It demonstrates that the banking sector can see a rise in land and labour costs, an increase in export prices, and a decline in competitiveness if it grows too quickly. Results indicate that broader access to financial services should follow rising incomes. The government should maintain a flexible and responsive stance towards the currency rate as it impacts the development of export commerce. An increase in the value of the currency may be good for China's export commerce. China must increase the rate of implementation of its direct financing, capital market growth, and financial reforms. The goal of direct finance is to maximise profits, whereas the goal of indirect financing is to minimise losses. With such a small proportion of total funding coming from indirect sources, China will need to establish a multi-tiered financial structure.

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