Issue 2 - The issue of Market Manipulation

Market manipulation refers to “transactions which create an artificial price or maintain an artificial price for a tradable security” according to the US Securities exchange act. Therefore, it is of course illegal in most countries however it is also incredibly difficult to regulate, detect and prove and so stands to be a very pressing issue which affects every member state to a large degree. For example, it is prohibited in the United States in the Securities Exchange Act of 1934 as well as in the European Union under Article 12 of the Market abuse Regulation.

From a microeconomic point of view, market manipulation schemes such as that outlined in the “pump and dump” mechanism can greatly affect individual markets and therefore investor confidence. The pump and dump scheme involves the artificial inflation of the price of a stock by providing investors with exaggerated positive statements about the stock, causing mass buying of the stock. At the inflated price level, the fraudsters sell their own shares of the stock at a very high price- lowering the price of the stock rapidly and causing the other investors to lose large amounts of money. The loss of investor confidence in the integrity of the market then leads to them selling their holdings, reducing liquidity in the financial system, and therefore meaning less cash is available to firms. - having devastating impacts on the firms in this market. These effects can also be a result of schemes such as insider trading- unlawfully trading in securities or disclosing non-public information to other parties for their own gain. Schemes such as insider trading also highlight another massive issue- the issue of unequal access to information since these manipulative practices give certain individuals unfair advantages, perpetuating inequality within the financial system.

Therefore, although market manipulation tends to be viewed as a microeconomic issue affecting individual consumers, specific markets, and firms, the structure and mechanics of markets and the way they are all interconnected highlights the fact that this issue is in fact very much macroeconomic. Though schemes such as “pump and dump” therefore tend to affect mainly individual markets or individual stocks, schemes such as “shrouding” tend to have more macroeconomic impacts. One particularly prevalent example of this is the concept of “shrouding”. Shrouding involves firms intentionally oversaturating markets with information about products, making it difficult for consumers to tell the difference between good and bad products as well as providing incomplete information to consumers regarding things like price and quality. This information can either be missing or to access but tends to be difficult to compare- rendering consumers unable to identify the best quality products and services as well as identifying cost effective options. This is however quite beneficial for firms since they have no reason to compete to make higher quality products or provide higher quality services. Not only is this form of market manipulation a cost to the consumers but it's also a cost to the future of industry since as firms have no incentive to improve the quality of their goods, innovation is stunted. In the UK alone, shrouded markets take away anywhere between £5 to £23 billion- although a large range, still a concerning amount of money considering this is an issue that has been very much overlooked.

These are just two examples of a form of market manipulation-as well as affecting consumer goods, it can affect stock exchanges, cryptocurrencies, and exchange rates, highlighting its prevalence as a pressing global issue. However, market manipulation is not an issue that is easy to solve due to the ability of individuals and entities to conduct these schemes relatively under the radar. Member states are constantly trying and failing to resolve this issue due to its massive impacts on the state's and the world's economy; however, market manipulation schemes take place so frequently and on such large scales that it is almost impossible to eradicate them altogether. Rather, the focus should be on regulating markets and making them less prone to manipulation as well as attempting to resolve issues that occur as a result of market manipulation.

Points to consider:

- How can your member state regulate their own economy to make it more difficult to manipulate markets? What policies could be used?

- Is global cooperation necessary or would individual policies for the economies of individual member states be more effective?

- Regarding the volatility of the stock and crypto markets, would regulation be the best course of action, or would it be more resource efficient to put efforts into dealing with the aftereffects of market manipulation schemes?

Useful links:

https://www.handbook.fca.org.uk/handbook/MAR/1/6.html?date=2016-03-07

https://www.forbes.com/sites/forbesbusinesscouncil/2022/06/09/when-markets-are-bearish-beware-of-stock-manipulation/

https://eur-lex.europa.eu/EN/legal-content/summary/preventing-market-abuse-in-financial-markets.html