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Maturity of Capital Market: Proposing A Theoretical Foundation

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ABSTRACT *Maturity is a psychological term used for your ability to survive , grow and sustain under the situation of challenges coming from internal and external environment . can there be a maturity scale that measures maturity level of the capital market? This is examined in the present work. It was found that majority view is confined to micro corporate view of maturity coiled under the meaning of efficiency. Therefore, a comprehensive conceptual model is proposed in this paper as an proposal for wider research in this regard*

KEYWORDS : Capital market, Maturity level, Efficient capital market

This paper is and improved version of the model of the present author worked out in the Book Capita Market.

1. Introduction:
There are basically two distinct types of financial systems. These are:

A system purely based on prices established and determined in competitive markets[Market Adjusted Financial System: MAFS], and

A system based on prices established and determined by government[Government Adjusted Financial System: GAFS]

These two types of financial systems are two theoretical extremes and not found usually in our financial world however important still as all other types which we come across in every day interaction with different financial markets lies between the two extremes points of the financial world mentioned above.

The more basic question is as to what defines the maturity of a financial system including capital market. Which form of the financial system i.e. MAFS or GAFS assures Maturity level of the capital market?

2. Objectives of the Study:
The two objectives of the present study are,

- i) To offer meaning and components of capital market.
- ii) To support the model with the help of other studies

3. The meaning of the maturity of the capital market system:
1. Ability of the capital market to improve, restructure and readjust the strategic variables of the capital market system viz., volume of the capital fund and its cost, return, risk and liquidity along with its capacity to keep present position, improve it and sustain the edge. It is also about knack to counterbalance changes generated within the financial side of the economy.

2.Ability of the capital market to improve , restructure and readjust the strategic variables of this system to counterbalance the changing effects generated within the real side of the economy so that it can keep its position intact and support the real side of the economy to regain, sustain and improve its competitive edge domestically and overseas, and

3. Ability of the capital market to improve, restructure and readjust the strategic variables of this system to counterbalance the changing effects generated coming from both the real and financial side of the economy at rest of the world so that it can keep its own position intact along with the real side of the economy as well.

4. Factors that shape, Shift and affect the components of maturity of the capital market system :

The following are the factors which shape the maturity of the capital market system. These are,

Monetary policy adjusting to the market and policy realities,

Fiscal policy adjusting to the market and political realities,

Linkage of financial market with the global financial market and its sensitivity toward the same,

Linkage of the real side of the economy with world markets and its sensitivity towards the changing realities,

Development of institutions and instruments which form the base for an efficient intermediation in the capital market,

Development of the regulatory institutions and its independence in governing the various activities of the capital market,

Efficient and independent regulation of foreign exchange market ,and

Efficiency and cost of the services aiding the financial intermediation process of the capital market system viz., a) Availability of professionals and skilled manpower ,b) wider application of information& communication technology and internet penetration in the society, and c) Use of electronic media and tale-communication for wider assimilation of information among the existing and potential participants.

5. The elements of the maturity level of capital market:

- We can derive elements of the maturity of the capital market from the set of factors enlisted above. These are enumerated hereunder,
- Per capita electronic and real space reach to the financial market,
- Per capita electronic and real space reach to the secondary market,
- Ratio of financial saving to the non-financial saving,
- Growth rate of financial saving to the growth rate of participants in the financial market,
- Ratio of primary participants to the secondary participants,
- Finance ratio,
- Intermediation ratio,
- Interrelation ratio,
- Volatility of the secondary market,
- Liquidity of the capital market,
- Cost of primary market participation,
- Ratio of dividend to the GNI,
- Growth rate of the paid –up capital to the growth rate of number of participants in the primary market,
- Ratio of risk carrying bonds to risk free bonds,

Ratio of growth rate of market capitalisation to the growth rate of the GDP ,
Growth of regulatory infrastructure, and

Growth of service infrastructure of the financial market,

6. Criteria to assess the maturity level of the capital market system:
There are basically two following criteria to judge the maturity level

of the capital market system. These are noted down hereunder,

- $C_{1.}$ If there is a positive increment in the elements of the maturity level of the capital market system, it will read as positive movement in the maturity level, vice-versa and
- C_2. A higher variation in the value of elements of the maturity level of the capital market will indicates lower maturity level or vice-versa.

7. Survey of other studies examining maturity level of the capital market system:

Now, the survey of other relevant studies is taken up for taking stock of the attempts made by others in this regard in order to measure maturity level of the capital market.

The majority of the studies address maturity as terms to the maturity of the security. Term to maturity refers to the remaining life of a debt instrument. With bonds, term to maturity is the time between when the bond is issued and when it matures, known as its maturity date, at which time the issuer must redeem the bond by paying the principal or face value. Between the issue date and maturity date, the bond issuer will make coupon payments to the bond holder.(Investopedia,2016).http://www.investopedia.com/terms/t/termtomaturity.asp. When we replace maturity with efficiency which is proxy for maturity as maturity defines a set of abilities to tackle challenges cropping up within or outside the system and sustain progress as well. This dimension is not accommodated in these studies.

Efficient capital market is a market where the share prices reflect new information accurately and in real time. Capital market efficiency is judged by its success in incorporating and inducting information, generally about the basic value of securities, into the price of securities.(Efficient Capital Market - Complete Guide - World Finance ,2016).

Efficient capital market is a **market** where the share prices reflect new information accurately and in real time. **Capital market efficiency** is judged by its success in incorporating and inducting information, generally about the basic value of securities, into the price of securities. The efficient markets theory (EMT) of financial economics states that the price of an asset reflects all relevant information that is available about the intrinsic value of the asset. Although the EMT applies to all types of financial securities, discussions of the theory usually focus on one kind of security, namely, shares of common stock in a company. A financial security represents a claim on future cash flows, and thus the intrinsic value is the present value of the cash flows the owner of the security expects to receive. As **Eugene Fama** (1991) notes, market **efficiency** is a continuum. The lower the transaction costs in a market, including the costs of obtaining information and trading, the more efficient the market. In the United States, reliable information about firms is relatively cheap to obtain (partly due to mandated disclosure and partly due to technology of information provision) and trading securities is cheap. For those reasons, U.S. security markets are thought to be relatively efficient.(Steven,L.JandJeffery,M.N.,2016 market where information regarding the value of securities are incorporated into its prices accurately and in real time. Since the value of securities fluctuates depending on the present value of future cash flows, an efficient capital market enables these fluctuations to be reflected in the securities' current price. http://www.investorwords.com/15368/efficient_capital_market.html#ixzz4OBOhE3Mc.

An efficient capital market is usually defined by the availability and accuracy of information about the securities and their prices. Economic market theories are usually based on the idea that every trader has full information about the securities available and the price demanded, along with any other details that could be relevant such as past market behavior, the performance of the company issuing the stock, or the likelihood of a debt security issuer repaying the money as promised. The more efficient a capital market, the closer the real situation is to this hypothetical situation. The idea is that the more efficient the market, the more informed the judgments and decisions of investors, and thus the money is allocated in the most productive way overall. One classification gives three levels of efficiency. A weak efficient capital market is one where only information about the past is reflected in security prices. A semi-strong efficient market is one where the publicly available current information is known by all investors and reflected in prices. A strong efficient market is one where all information is known by investors, even information that is not publicly available; this is effectively the situation assumed by market theories but unlikely in the real world. http://www.wisegeek.com/what-are-the-characteristics-of-an-efficient-capital-market.htm

These studies ostensibly spawned over the ability to discount price sensitive information into the buying , holding or selling securities in the capital market as the major criteria of the efficiency or maturity of the capital market system.

8. Conclusion:

Definitely these are micro view of the market functioning and need comprehensive coverage of elements into the consideration which includes capital market performance from corporate, small investors, government and capacity to promote interest of the economy and calibre to survive imbalances coming from domestic and overseas markets. Therefore the comprehensive model given above may prove helpful in this regard.

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