Efficient market theory

Finance

Market Efficiency Theory In the context of finance and trading the term market efficiency theory isused to refer to the idea that financial markets such as bond and equity markets operate on the basis of information (Chicagobooth. edu 1). In other words this means that the price at which a particular asset or stock is trading in the stock exchange are based on the quality and the quantity of the information regarding that stock. This event occurs when traders in the stock exchange make decision regarding the purchase and sale of a particular stock on the basis of the information that is available to them. This information may make them perceive that a stock may rise or its price may decline and they may take decisions accordingly. Efficient market theory is of the idea that individuals within the market have similar information and rejects the idea that different individuals may have different information. This even means that the investor that first receives the information will benefit more than those who have received the information later. For example: some investors of the stock market receives information that the sales of Procter & Gamble have increased by 100% as compared to the figures of last year. As a result of this the trader may end up purchasing the stock. If the trader had received this information later as compared to other traders, then the trader may not have purchased the stock at the right price since other traders may have already purchased the stock and the stock prices may have increased.

Works Cited

Chicagobooth. edu,. Efficient Market Theory - University Of Chicago Booth School Of Business. N. p., 2015. Web. 4 Feb. 2015.