

Case study

Finance



1. The reason Raj Rajaratnam received an 11 year jail sentence is because he was performing inside trading. Insider trading can be defined as the buying or selling of a security by someone who has access to material non public information¹. The judge found Raj Rajaratnam guilty of 14 counts of conspiracy and securities fraud due to the \$63 million he made in profits as a consequence of his illicit insider trading activity. The sentence Raj received is the longest sentence given in our era for the crime of insider trading. This case was particularly interesting because Mr. Rajaratnam had a continuous pattern of using insider trading to make millions of dollars in profits. Typically insider trading occurs as one time tips that a person exploits. A smart insider trader will not abuse his knowledge to earn money to stay off the radar of the Securities and Exchange Commission (SEC). Greed was the primary factor that led to the demise of Raj Rajaratnam.

2.

The financial market suffered a risk in regards to the integrity of Wall Street as a whole. The SEC discovered during its rigorous investigation of the insider trading activities of Raj Rajaratnam that insider trading was more widespread across America than what the authorities thought. Raj Rajaratnam had a network of informants he paid for the insider information he used. During the investigation 16 people were charged with financial crimes. It appears as if insider trading is more widespread than anyone ever thought. The reason insider trading is illegal is because it gives the recipient of the information an unfair advantage in comparison with the typical investor². The stock market is supposed to have asymmetry and everyone should have the same information.

3.

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It is my opinion that the judge was completely correct in the harsh sentence he gave out to Raj Rajaratnam. The judge said, “ His crimes and the scope of his crimes reflect a virus in our business culture that needs to be eradicated.” Insider trading is no joke; it hurts the integrity of the financial market, while at the same time giving an unethical trader an advantage which he can capitalize to receive a personal benefit. Rich insider traders can affect the whole market by making huge buy or sell orders on a particular stock. The large trade can alter the day’s price quotation on a stock. Raj Rajaratnam was a greedy dragon that wanted to get rich quick at the expense of the investor community. It is a bit sad that Raj Rajaratnam resorted to the illicit activity since he was already a millionaire and he did not need the extra money. Sometimes people say that money is the root of all evil. Raj Rajaratnam got what he deserved. I thought that his claim for a lighter sentence based on illness was pathetic. He did not act like a sick man when he was defrauding the financial market of millions of dollars. If the law allowed for a higher jail year sentence he should have received the maximum penalty.

References

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