Regulation of financial and capital markets in the Czech republic and the law of European union.

Petr Koblovský

Abstract

This dissertation analyses financial and banking regulation employing the law and economics approach first introduced by famous prof. Guido Calabresi and prof. Ronald Coase. The theoretical part analyses the regulation from different angles using methods used by traditional economic, political, legal as well as behavioral sciences. The author introduces a hypothesis that (especially) financial regulation can be viewed as a result of market and political pressure of banking and financial industry. Correspondingly, the author shows that the regulation of financial sector is designed in a way that the financial sector benefits on the account of allegedly protected individuals. The paper also portrays negative effects of regulation – the increase of systemic risk, formation of various inefficiencies, dead weight loss etc. The paper, however, shows some alternatives to regulation pursued by regulatory bodies and brings to attention benefits that these alternatives can have on the market stability. Moreover, author discusses the process of deregulation and its limits.

The paper further introduces main arguments that are commonly used to defend the existence of financial and banking regulation. The analysis recapitulates most of the arguments used by politicians, regulatory bodies and banking sector in their attempt to justify the regulation. The analysis, starting with a simple question "Cui bono", shows the biggest beneficiaries of financial regulation and shows that the arguments, they use, mislead society and individuals at great costs. The author also argues that the regulation, instead of eliminating negative externalities, causes significant costs that are born by the individuals, who do not play any role in triggering them.

The paper also discuses the potential improvements to current system of financial regulation, banking regulation specifically. The presented proposals provide a regulatory concept that would guarantee not only the improvement of financial sector stability and protection of the individual but also allow further development of financial and banking markets, which are both crucial for economic development. These proposals – if implemented – would also lower the risk the financial institutions bear and cause and allow that efficiency and stability on the financial market is reached.