

THE FUTURES MARKET IN TAIWAN

by

Guo-Shiung Huang,

A research study submitted in partial fulfillment of the requirements for the degree of Master of Business Administration

Examination Committee

Professor John C.S. Tang (Chairman)

Dr. Fredric W. Swierczek

Dr. Truong Quang

Nationality

3.4. 16.

Previous Degree

Taiwanese Bachelor of Business Administration

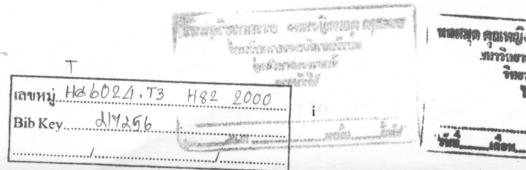
Chung Hsing University

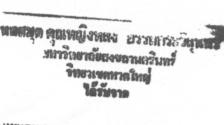
Taichung, Taiwan

Scholarship Donor

Taiwan Provincial Government

Asian Institute of Technology School of Management Bangkok, Thailand April 2000





ABSTRACT

This research study examines the current development of futures market in Taiwan, and its interactions with spot market. Futures market is the symmetry of the spot market. It plays two important roles. One is price discovery, and another is risk transference. Commodities of Taiwan Futures Exchange are playing such two important roles. One is to discover the real price of spot share, another is to offer a hedging channel for stock market participants.

This research attempts to explore the possible problems of indigenous futures market. Two major unfavorable issues are identified. High transaction costs results in the insufficiency of market liquidity. On the other hand, institutional investors have low involvement in the futures trading, especially foreign investors. These issues will be detrimental to the enhancement of the prospects of Taiwan Futures Market.

Based on the issues identified, Taiwan futures market may adopt some measures to promote its robustness and enhance its market liquidity. They are made up of enhancement of tax incentive, introduction of market maker system, diversity of derivative commodities, pursuit of strategic alliance, and appropriate relaxation of regulation.

Formation of a complete and robust financial market does not just depend on control and regulation of spot markets. If derivatives markets could be established step by step, they will be a great complement to the spot markets.