INFLUENCE OF INFORMATION ASYMMETRY ON THE STOCK MARKET ON THE PRICE FORMATION PROCESS

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Annotation: *This scientific article analyzes the economic essence of information asymmetry in the stock market, its impact on the formation of the price of securities, as well as theoretical and practical aspects related to insider trading (Domestic Trade). In the course of the study, it was studied how the uneven distribution of information affects the behavior of investors, market liquidity and the effective formation of prices. Also, the role of information transparency, quality of corporate governance and regulatory control in the stock markets of developed and developing countries has been analyzed. According to the results of the study, an increase in the level of information asymmetry increases uncertainty in the market, leading to a deviation of the price of assets from the real value. Based on this, proposals and recommendations have been developed to increase information transparency in the stock market and protect the interests of investors.*

Keywords: *stock market, information asymmetry, insider trading, price formation, capital market, information transparency, investor behavior, market efficiency.*

Introduction

In a market economy, the stock market is one of the important mechanisms for the efficient allocation of economic resources. Through the stock market, free movement of capital is ensured, and investors direct their free funds to income-generating financial assets. However, as an important condition for the effectiveness of the stock market, equal and transparent information is required to be available to all market participants.

In practice, however, the level of information ownership of investors is not the same. Individual investors or corporate management entities will have access to important internal information in advance. As a result, information asymmetry occurs in the market. This situation negatively affects the process of formation of prices, causing an incorrect assessment of the value of assets.

The theory of information asymmetry was first substantiated by George Akerlof in his concept of “the Market for Lemons”, which argued that information ambiguity in the market leads to a breakdown in resource distribution. Signal and screening theories were later developed by Michael Spence and Joseph Stiglitz, providing an in-depth analysis of information problems in financial markets.

One of the main manifestations of information asymmetry in the stock market is insider trading. Insider trading is the trading of securities using undisclosed critical information regarding the company's activities. This practice creates unfair competition among investors, compromising market reliability.

In recent years, the number of research related to insider trading has been increasing in global financial markets. In particular, research in 2024 found that insider trading in companies with high data asymmetry leads to abnormal profitability.

The purpose of this article is to study theoretically and practically the impact of information asymmetry on the price formation process on the stock market, as well as to develop scientific proposals to reduce these problems.

REVIEW OF THEMATIC LITERATURE

The issue of information asymmetry in the stock market is one of the most relevant areas in the science of Economics. This problem is closely related to market efficiency, investor behavior and price formation.

The scientific basis of the theory of information asymmetry was developed by Akerlof, according to which the fact that one side in the market has more information than the other side creates economic inefficiency [1].

Spence reasoned through signal theory that companies send signals to investors using financial statements, dividend policies, and other indicators [2].

Stiglitz, on the other hand, researched investors ' mechanisms for data analysis and differentiation through screening theory [3].

According to the efficient market hypothesis developed by Fama, all available information in the market is reflected in prices [4]. However, later studies have shown that this hypothesis does not work in all cases.

A 2022 systematic review by Jamadar et al noted that poor corporate governance and information asymmetry increase the risk of insider trading.[5]

A 2024 study on the Chinese stock market found that insider trading in companies with high data asymmetry generated short-term abnormal returns.

It has also been found that increased information correlation in financial markets improves market liquidity and efficiency.[6]

In modern research, the possibilities of forecasting the cost of shares based on insider trading using artificial intelligence and machine learning technologies are also studied.

In addition, the activities of regulatory bodies for the detection and Prevention of insider trading are being strengthened in developed countries. For example, an insider trading status monitoring system has been improved by the UK Financial Regulatory Authority FCA.

Literature analysis shows that information asymmetry has a significant impact on the effectiveness of the stock market, and reducing this problem requires strengthening corporate governance and information transparency.

RESEARCH METHODOLOGY

In this study, complex methods of scientific knowledge were used. In particular:

* systematic analysis;
* comparative analysis;
* statistical observation;
* induction and deduction;
* methods of economic-logical analysis were used.

The theoretical basis of the study was the scientific concepts of stock market efficiency, insider trading and information asymmetry.

As empirical data, international scientific articles, reports from financial organizations, stock market statistics, as well as research on modern scientific bases were used.

The following areas were analyzed during the study:

1. Impact of information asymmetry on stock market prices;
2. Impact of Insider trading on investor behavior;
3. The role of corporate transparency in market efficiency;
4. The importance of regulator control in reducing insider trading.

Increase in information uncertainty in the stock market based on analyzes:

• to increase the volatility of shares;

• decrease in investor confidence;

• reduced market liquidity;

* has been found to lead to misjudgment of assets.

It has also been observed that the development of algorithmic trading and artificial intelligence technologies in modern stock markets increases the speed of data use, complicating the risk of insider trading.

Influence of information asymmetry on price formation on the stock market

The price of securities in the stock market is formed on the basis of supply and demand. But the effectiveness of price formation is disrupted when the level of information ownership of market participants varies.

Under conditions of information asymmetry, Insiders will be aware in advance of the financial situation of the company, future profit, dividend policy or merger agreements. For this reason, they will have an advantage over ordinary investors in the market.

This is the case:

• to artificial price changes;

• increase in speculative transactions;

• causes increased risks in the market.

As a result of Insider trading, some investors may receive high abnormal returns. But in the long run, this situation reduces confidence in the stock market.

According to modern research, insider trading is often done before negative financial information is published.

The effect of information asymmetry in the process of price formation is manifested in the following stages::

a) information dominance stage

Insiders have access to undisclosed information and carry out strategic trading operations in the market.

b) market reaction stage

When the information is released to the public, a sharp change in the price of shares occurs.

C) decrease in investor confidence

Ordinary investors, sensing the presence of injustice in the market, reduce investment activity.

g) decrease in liquidity

The volume of trade in the market is reduced, and the possibilities of attracting capital are limited.

Also, some economists argue that insider trading can bring prices closer to “real value”faster. However, most researchers note that its negative consequences prevail. Discussions on Reddit's economic forums also point out that insider trading poses a “market for lemons” problem in the market in the long run.

Mechanisms for reducing information asymmetry

To increase the efficiency of the stock market, it is important to reduce the asymmetry of information.

For this, the following mechanisms are used:

Strengthening corporate transparency

It is necessary for companies to publish financial statements on time based on international standards.

Enhanced regulator control

Stock market regulators must use state-of-the-art monitoring systems to identify cases of insider trading.

Improvement of the audit system

Independent auditing companies play an important role in ensuring the veracity of corporate information.

Introduction of digital technology

With the help of artificial intelligence and Big Data Technologies, the effectiveness of detecting suspicious trading transactions is increased.

Increase financial literacy of investors

The development of investors ' information analysis skills reduces the impact of information asymmetry.

CONCLUSIONS AND RECOMMENDATIONS

The results of the study confirmed that information asymmetry in the stock market has a significant impact on the price formation process. Uneven distribution of information reduces market efficiency by increasing the risk of insider trading.

The analysis showed that:

• information asymmetry creates unfair competition among investors;

* insider trading causes the stock price to deviate from the real value;

• the level of confidence and liquidity in the market decreases;

• information asymmetry is relatively poorly observed in companies with a high quality of corporate governance.

Based on the study, the following recommendations were developed:

1. Strengthening information transparency in the stock market;
2. Stricter liability measures for Insider trading;
3. Development of digital monitoring systems;
4. Improving corporate governance standards;
5. Increase financial literacy of investors;
6. Implementation of artificial intelligence-based control systems.

The implementation of these proposals serves to improve the efficiency of the stock market, protect the interests of investors and strengthen confidence in the capital market.

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