# Regulation of Speculation in the Financial Market by Derivative Instruments: From the Economic Perspective

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## Abstract

This article argues that market speculation is a conduct to acquire benefits by undertaking risk. Derivative instruments are powerful tools for market participants to conduct market speculation, which may help hedging, market making and completing investment market. However, pure and excessive speculation might cause net loss of market efficiency and create external costs. Some speculative transactions may imply asymmetric information. Market speculation might also lead to market abuse and even systemic risk. These reasons provide the basis to regulate market speculation by derivatives trading. This paper argues that Taiwan law might build on current regulatory model centring on the type of financial institution and devise legal rules to restraint the amount of speculative transactions and to avoid risk from spreading in order to contain problems from market speculation. In addition, in the retail market, Taiwan law might employ a certain degree of direct product regulation in order to clarify terms of relevant derivative contracts and the rights and obligations of parties in order to reduce the negative consequences of speculation/investment by way of derivative instruments.

**Keywords: speculation, hedging, derivatives, futures, credit default swap, economic analysis, systemic risk, gambling (wagering), insurable interest, clearing**

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