
1. Explain and justify your choice of dataset as well as your industry and market area delimitation.

1.1. Background of the selected industry and market

Since People's Republic of China initiated reform and promulgated opening-up policies in the late 1970s, the last several decades have witnessed the development of the capital market. Complying with this boom, China's securities industry and market has displayed its vigor and dynamism. It is noteworthy that securities brokers reached the zenith of a bullish capital market in 2009. They earned 102 billion RMB net profits with the resumption of Initial Public Offering (IPO) activities and the launch of ChiNext, represented an increase of 90% over 2008 (KPMG, 2012). While there appeared an actual decrease in revenues and net profits from 2010 to 2012, China's securities brokers' business continued to grow: More securities companies have participated in and become listed; a number of new products were introduced (Securities Association China, 2012).

1.2. Justification of the delamination

This report selects securities industry and market and investigates it in the national level of People's Republic of China. This selection is based on the analysis of the product market and geographic market (Lipczynski, Wilson and Goddard, 2013). A product market refers to the segregation if all goods either in consumption or production are mutually substituted for one another, while a geographic market is confined when there exist transport costs and trade barriers influencing sources of the market supply (Lipczynski, Wilson and Goddard, 2013).

The product market of securities is discussed in this report from both supply and demand sides. From the industry perspective, securities' trading is conducted by intermediary agencies that are active in the Secondary Market and charge fees to act as intermediates between investors and sellers in the capital market. Securities companies, future companies and banks conducting securities transactions are considered as producer substitutes in this industry. Three traditional services (brokerage, underwriting, sponsorship and proprietary trading) and three innovative services (securities margin trading, assets management and trade of financial derivatives) are usually provided by each firm and substituted for one another when boosting company's revenues and profits. According to KPMG (2012), the income combination of traditional

services accounted for 80 percent of the gross income, with the brokerage business taking up 52 percent of the gross income in 2011. As for the demand side, consumers are surrounded by a similar range of investment advisory services of stocks, bonds, funds, warrants and futures by almost all securities intermediates. Consumers can transfer to other services and providers with relatively low switch costs. Therefore, close product substitutions are also manifested in the market area (Lipczynski, Wilson and Goddard, 2013).

When it comes to the geographic concept of securities industry in China, the national market is discussed in this study. This is caused by the fact that a country's regulatory structure determines what qualifies as a security and establishes massive obstacles of supply sources, which capitals and securities are circulated worldwide. Furthermore, governmental situations of China's securities industry and market is considered to be highly controlled and top-down shaped, which further requires separate investigations and discussions. It is contrary to those bottom-up spontaneous securities markets in Amsterdam, London or New York (Allen and Shen, 2011). While infant securities market in China was once regulated by local authorities, the formation of the nationwide markets was marked by the establishment of Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) in the early 1990s. Following this, the Securities Committee of the State Counsel (the "SCSC") and the China Securities Regulatory Commission (the "CSRC") were formed in 1992 (Allen and Shen, 2011). As such, a centralized supervisory framework for prescriptive securities insurance and trading is structured and barriers are difficult to overcome. The analysis in the national level, therefore, is more suitable to conduct the discussion of China's securities industry and market in this report.

1.3. Justification of Dataset

The dataset in this study presents top-20 listed securities companies in SSE and SZSE among 114 securities companies in China. This is due to the fact that being listed shows the comprehensive competitiveness of a firm in a certain industry and its financial report is usually guaranteed to be transparent and detailed when provided to the public.

All required items of these top-20 firms (sales, profits, total assets, the number of employment and investment on innovation) are listed in Appendix 1. Meanwhile, the sales of all securities firms are listed in Appendix 2.

2. Calculate the C5 concentration ratio and HHI index for your chosen industry/region combination.

N-Firm concentration ratio and Herfindahl-Hirshman Index (HHI) are two of the most important measures to value the seller concentration in a certain industry. Here, the market share is estimated as the ratio of a firm's sales to the total industrial sales in 2012. It can also be calculated as the portion of individual firm's total assets or number of employees to their industrial situations.

2.1. C 5 concentration ratio

Denoted as CR_n , N-firm concentration ratio is computed by adding up market shares of N biggest firms in an industry. It can be mathematically presented as the following formula:

$$CR_n = \sum_{i=1}^n S_i$$

In this formula, N stands for the N top firms to be calculated; top 3, 4 or 5 companies have mostly been concerned. S_i represents the market share of firm i. The C5 concentration ratio can be easily obtained by substituting the 5 biggest companies' market shares into the equation. Thus, when replacing by data of China's securities industry, the result of 0.2534 is calculated. It manifests that that the 5 top companies own 25.34% market shares in total.

2.2. HHI

Another prevailing way to measure seller concentration is Herfindahl-Hirshman index (HHI). It can be computed by summing up all firms' market shares squared as followed.

$$HHI = \sum_{i=1}^N S_i^2$$

Same as C5 formula, N represents the total number of firms in the industry; S_i stands for the market share of firm i. Applying industrial data of individual size listed in the Appendix 2. Accordingly, the result of 0.02426 can also be accurately calculated by substituting all 114 firms' market shares.

3. With reference to the textbook, discuss the determinants of seller concentration in your chosen industry. [10%]

Basically, C5 Concentration ratio and HHI indicates that the seller concentration in securities industry remains in a low level which is a character of perfect competition (Lipczynski, Wilson and Goddard, 2013). It attributes to mixed determinants including industry lifecycle, economies of scale, regulations and entry barriers, and scope for discretionary sunk cost expenditure.

3.1. Industry lifecycle

According to the industry lifecycle theory, the securities markets in china stays in the growth stage, demonstrated by the HHI calculated in the last section. Japan and America are deemed to be in the maturity stage because their HHI are 0.2069 and 0.1761 respectively, much higher than China's 0.02426 (Cai, 2013). Thus, a large potential remains available in securities market for new-born companies to explore.

3.2. Economies of scale

While the C5 ratio equal to 25% remains low, those leading companies have achieved relatively economies of scale. Dominant companies in the industry dilute its overhead costs to achieve the price competitive advantage. Furthermore, they own more resources to invest in advertising and R&D department, resulting in a lower operation cost. As the securities industry develop, economies of scale will be more crucial; in return, better achievement of economies of scale will lead to a more concentrate seller concentration.

3.3. Regulations and Entry Barriers

Entry barriers of securities industry are complex. Firstly, it seems possible for new entries at a low switching cost due to homogenization of primary service in securities industry. However, it is actually difficult for private capital to share the cake. Governmental control maintain relatively tight and many securities companies are partially state-owned. Additionally, better accomplishments of economies of scale of leading companies squeezed the living space of smaller companies and maybe cause a new round of merger and acquisition. Thus, the seller concentration may increase in the future.

以上内容仅为本文档的试下载部分，为可阅读页数的一半内容。如要下载或阅读全文，请访问：<https://d.book118.com/995301112123011044>