



# Financial Market Stability For Improving The Quality Of Human Capital

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## Financial Market stability for improving the quality of Human Capital

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### ABSTRACT

In the modern economic system, the efficiency of the functioning and the degree of development of human capital, on the one hand, and the quality of investment decisions, on the other hand, are interlinked with the overall opportunities to achieve stabilization of financial markets and, as a consequence, become a condition for achieving overall positive economic growth in national economic system. The decisions made by investors in the financial market are the result of the development of their potential opportunities in terms of education, culture and morality. The qualities inherent in players in the financial market correspond adequately to the overall quality of human capital in the national economy. Moreover, if the qualification or educational requirements are almost always met, the issues of the legality of actions within the framework of finding various shortcomings in the legislative system (regulation of operations in the financial market) and, accordingly, the possibility of extracting additional income through the use of these opportunities are open and interesting.

The rules of the game in the financial market require the standardization of instruments and methods at a common international level to create equal conditions for investors and to prevent non-market wins for investors operating under special rules within a separate national economic system. The interaction between human capital and the stability of the financial market in the Russian economy also makes it possible to single out the issue of developing the quality of human capital as one of the basic parameters that have a significant impact on the functioning of the financial market.

**Keywords:** human capital, financial market, investment and economic development



## **1. INTRODUCTION**

Currently, financial markets largely determine peculiarities of developing the national economy. Attracting financial resources and their effective allocation between sectors stipulates the creation of conditions for overall economic development. At the same time the financial market reacts quickly to the processes and changes occurring in the world. It is the financial market that can create tools for advanced development of the national economy and can create serious problems for the functioning of the real sector (Bagautdinova, 2013).

In turn, the processes in the financial market cannot be analyzed effectively without taking into account the quality of investment decisions and without the quality of human capital in the national economy. Human capital and its parameters evolved in the society determine the peculiarities of the national economy functioning as a whole and within the development process of individual sectors of the economy (Bodrov, 2014).

## **2. METHOD**

The financial market has a complex structure. Currently, it is a whole group of interconnected markets with common regulatory mechanisms of the processes, directions and redistribution of financial flows, as well as the community (in many ways) of assets traded.

If we consider the financial market as consisting of such elements as:

money market (or the market of short-term loans);

capital market (the market of long-term loans);

domestic foreign exchange market;

futures market;

equities and bonds market,

we may note that all of these markets really mediate a movement of financial assets, and that almost all of them either initially (after formation), or through the mechanisms determining the price changes depend on subjective parameters, for example, on media reports, actions of market players, development of investment strategy and tactics, and so on. There is no doubt that the strategy of the processes in the market is determined by macroeconomic statistics, but in the short term investors' behavior is crucial. Moreover, we can assume that as the financial market is characterized by



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constant movement of monetary resources from one segment to another, then investors' desire to profit actually defines growth or decline in each respective segment(Dylevskaya,2013).

At the same time as many of the elements and instruments of the financial market were originally formed just as the ones for stabilizing financial relations and reducing the risk (e.g. futures market allowing you to transfer individual risks from investors to the entire system of financial relations), one should note initial stabilizing role of such instruments traded on market (e.g. futures and options). However, it should be said that these instruments (reducing the risks of individual investors) increased the overall imbalance and could provoke the onset of the general financial crisis.

Market pricing, another component of the financial market functioning mechanisms, is ultimately a more subjective parameter, since, according to F. von Hayek, on the one hand, it allows you to optimize the operation of the market and facilitates its operation, up to the possible establishment of an efficient tool enabling to overcome the crisis (deflation and subsequent economic growth due to cheapening economic resources), and, on the other hand, since it is the prices that are significantly affected by certain players in the market, and they, to a large extent, reflect the subjective preferences of existing investors.

Considering the price mechanism, F. von Hayek determines prices as media about the current state of the market. They are able to change investors' preferences and generate investment policy, thus influencing the market, when investors take them into account. It can be argued that any impact on the quality of the information about market changes directly alters prices and market conditions.

As regards investors' actions in the market, we, in turn, should pay attention to the category of "human capital" which, from our point of view, enables to assess many of the phenomena of modern market economy based on the analysis of the behavior of economic agents. When considering the human capital, it can be argued that improving the quality characteristics of the person (through increasing the level of education) contributes actually to a better economic resource that can be used for a long period of time.

An employee in modern information society should improve education and acquire new knowledge and information throughout the life. Furthermore, it can be said that it is necessary to adapt a modern employee to the pace of life and acquisition of new information that will contribute to more



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efficient functioning of an employee. On the one hand, worker's adaptability to the modern pace of life is a prerequisite for the employee to achieve more meaningful goals in career growth, a successful personal and professional development. On the other hand, this adaptability of the employee is an essential element of successful operation of the organization. Adaptation of the employee, in its turn, requires intensifying education and training the skill so as to form the need to improve the quality level of their professional capabilities. Thus, employees' adaptability (or flexibility) in the formation of a successful organization becomes a parameter similar to the volatility in the securities market.

And if on the securities market the increased volatility indicates a growing riskiness of operations (and possible growth in yields), the volatility of the targets (within the objectives of the organization) and of the tools applied in the organization for improving the human capital becomes the criterion of functioning efficiency of the organization and increase in profits. However, in this case, optimality should take into account certain constraints (ethics, morals, etc.), or the very existence of the organization becomes unstable.

Thus, it can be argued that investment in human can increase the efficiency of economic resources of the society as a whole. Accordingly, productive qualities of the worker can be considered as a special form of capital since they provide its owner with an opportunity to get certain income for some time.

### **3. RESULTS**

At the same time the formation of the information economy (where a much more significant role is given to human capital in the economic development of society), on the one hand, leads to certain changes in the structure of human capital. On the other hand, the readiness to accept the new economy is determined by the state of human capital. However, changes in human capital change the perception of the actual price signals (and of other parameters indicating the change in the market) by an individual economic entity. These changes in the perception of price signals, respectively, will change the behavior of the entity, as well as the consequences for the economic system.

Information technology in modern economy is the basic elements of the labor process contributing to the development of human capital. Moreover, the possibility of generating and transmitting information flows have to be taken into account and solve the problem of asymmetric information,

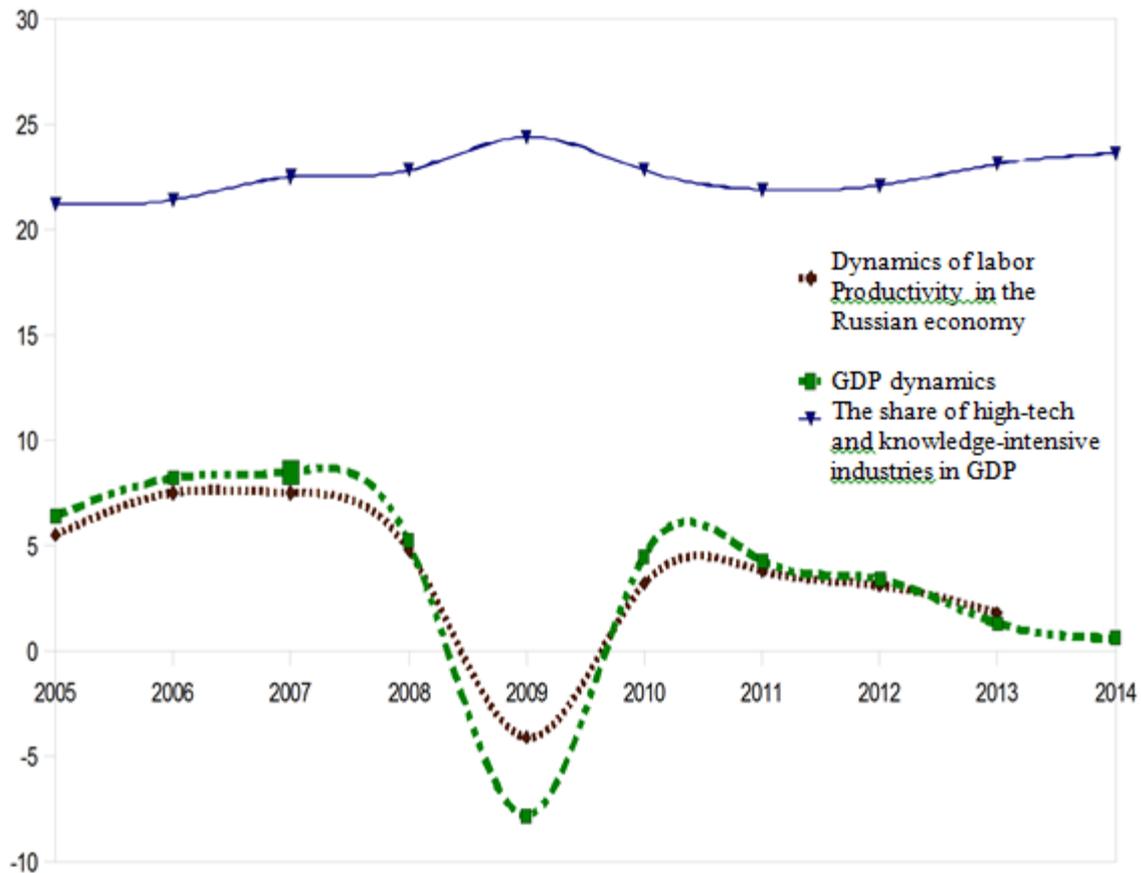


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contributing to more efficient use of existing resources. In this case, however, we are not concerned with the problem of establishing communication process in the society. Given the effectiveness of existing communication systems (within the transfer of information), we assume rather high efficiency of the system and leave the problem of information distortion beyond the research.

Availability and efficiency of the existing communication system contributes to the development of innovative potential of the organization. However, the very ability to innovate depends on the quality of the human capital and its opportunity to use new knowledge to solve specific problems. Having analyzed the characteristics of the Russian economy over the past 10 years, we can note that the dynamics of labor productivity (one of the parameters characterizing the efficiency of human capital) has been associated with the general rate of change in GDP. Furthermore, GDP decline during 2008 crisis, in fact, was accompanied by a decrease in productivity. With regard to the share of high-tech production and knowledge-intensive sectors in the GDP, it is during the crisis that there was a slight increase in it, i.e. it is this sector of the economy has shown greater stability (Figure 1). If we consider high-tech and knowledge-intensive industries as a result of the functioning of an innovative economy and the development of human capital, one should note their positive impact on the overall stability of the economy in periods of instability.



**Fig. 1. The dynamics of the basic parameters of the Russian economy**

Human capital (based on the above-said) can, thus, be considered as a factor of production.

However, human capital can also be structured (narrowly) by qualification, by the complexity of the role in social reproduction. It is this approach to dealing with the human capital that allows us to assert a significant impact of human capital not only on the reproduction process itself (as an economic resource), but also on the stability of financial markets. In this case we have to limit the role of human capital. Refusing to consider such elements of human capital as professional knowledge and skills, as well as such element as entrepreneurial skills, we pay attention mainly to the ability to continuously develop and improve one's skills. In fact, it is about the continuous improvement of human capital, and hence the continuing possibility to find new ways of generating profit.

In fact, if we consider the investors operating on the market as required and the most important short term instrument of influence on the market, it is the quality of investment decisions, and



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therefore the quality of human capital determines the intensity and direction of changes in market conditions.

As an example of such short-term impact on the financial market we can consider end-of-2014 developments in the Russian economy, when there were significant changes in the national currency under the influence of speculative factors on the market. It should be noted that all possible exchange rate fluctuations are based on objective macro-economic parameters, but the speculative one requires more attention from regulators as well.

As objective factors affecting the currency market at the end of 2014 can be considered:

energy prices;

reduction in the value of official foreign exchange reserves of the Central Bank;

economic sanctions against a number of sectors of the Russian economy that limited international borrowing;

key interest rate set by the Central Bank.

The first three factors objectively led to cost reduction of the Russian currency (and their effects can be considered as fast). The key interest rate in the short term leads to a rise of the Russian currency, however, reducing the intensity of investment and lending in Russia in the long term will lead to a reduction of the Russian ruble as a result of crisis developments. Furthermore, isolation of the Russian economy on external financial markets makes it necessary to review the regulation instruments used by the state and the Central Bank. We actually move to a model of closed economy, when the interest rate growth does not lead to financial injections from abroad but reduce the investment activity and economic growth opportunities.

Objective parameters should also include GDP, the dynamics of economic growth, and the volume of country's total exports and the share of the export of raw materials, minerals and manufactured products.

Subjective factors affecting the financial market, in accordance with the above, include mainly the players of the financial market who strive for profit as well as information flows circulating in the community. Among subjective parameters we also can identify the quality of human capital, with elements such as the level of education or skills affecting the enhancement or reduction of imbalances.



#### **4. CONCLUSIONS**

At the same time when determining the relationship of the financial market and human capital as a basic element of control in today's economy, it is necessary to pay attention to the possible speed of change in quality characteristics. If changes in the market of human capital are accumulated slowly (in the long-term period), after accumulating critical value these changes have a rapid impact virtually on all sectors of the economy (in the short-term). In fact, changes in human capital alter the environment of social existence, and subsequently provide a qualitative impact on all elements of the economic system. Thus, planning peculiarities of human capital the society and the state are planning future changes in the economy. In this case, the difference between the long-run period and short-run period is determined by the parameters stability of human capital in the long term.

#### **5. DISCUSSION**

Stabilization of financial markets and their functioning in the normal mode of operation, in fact, constantly requires the active intervention of many specialists. If organizational issues are solved reasonably and quickly, the fundamental changes in the markets are largely determined by the nature and quality of human capital in the national economy. The level of education, the qualifications of investors, the degree of their acquaintance with the rules of the game, not only on the domestic financial market, but also on the international market, in fact become the key to the success of the development of the financial market in this or that economic system.

Opportunities to use shortcomings in legislation for lawful violation of a number of generally accepted rules of the game on the domestic financial market are also quite possible, that is, in this case it is not only about qualifications, but also about the principles of morality (in accordance with universal values)( Fakhrutdinova,2014).

The issue of the admissibility of violations of the rules of the game, provided that the deficiencies in the regulatory legislation are found, is quite extensive and interesting. The only way to resolve such possible contradictions within the financial system of a single country can be to standardize the rules of the game with the general rules of the international market and, if possible, eliminate the opportunities for changing the rules of the game solely within the framework of a separate economic system.

#### **6. ACKNOWLEDGMENT**



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