Business Ethics Journal Review
SCHOLARLY COMMENTS ON ACADEMIC BUSINESS ETHICS
businessethicsjournalreview.com

Cite as: **Bus Ethics J Rev** 9(9): 54–59, https://doi.org/10.12747/j1i09

Edited by **Chris MacDonald** & **Alexei Marcoux**

ISSN: 2326-7526

INSIDER TRADING AND THE POTENTIAL FOR SABOTAGE

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A COMMENTARY ON T. L. Smith and W. E. Block (2016[2]), "The Economics of Insider Trading: A Free Market Perspective," ***J Bus Ethics*** 139(1): 47–53, https://doi.org/10.1016/0304-405X(93)90039-E

ABSTRACT

Insider trading is widely reviled, and yet – as Smith and Block argue – it is consistent with the basic principles of a free market system. This article draws attention to an argument against insider trading that Smith and Block don't address, namely the potential for sabotage. However, this issue still fails to justify insider-trading legislation, and thus ultimately supports Smith and Block's view that regulatory attempts to prevent it are misplaced.

SMITH AND BLOCK (2016) discuss a valuable focal point in our understanding of the ethical basis of a capitalist economic system: insider trading. Their article can be described as a short, dated, but engaging polemic that articulates why securities markets are not deserving of special regulatory attention when it comes to information asymmetries. Although insider trading is widely reviled, standard economic theory casts doubt on how pernicious it is. The purpose of stock markets is to provide accurate information relating to company performance, and one should expect that the more information that is contained within that share price, the better. After all, in a capitalist

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[2] [**Editorial note:** *This target article is outside* Business Ethics Journal Review*'s usual three-year window for Commentaries. That is due to editorial mishandling of the author's original submission, which was accomplished within the three-year window. The Editors apologize to the author for the error.*]