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Financial Market Efficiency Should be Gauged in Relative Rather than Absolute Terms

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Abstract

Economists assess the efficiency of financial markets in absolute, all-or-nothing terms. However, this is at odds with a no-nonsense physics approach. Here, I describe how the relative efficiency of markets can be gauged taking advantage of algorithmic complexity theory. This is not physics-envy because the approach is superior in considering the proper randomness present in complex financial markets.

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