

# The Global Financial Crisis and the Efficient Market Hypothesis: What Have We Learned?

Ray Ball

First published: 15 December 2009

<https://doi.org/10.1111/j.1745-6622.2009.00246.x>

## Abstract

The sharp economic downturn and turmoil in the financial markets, commonly referred to as the “global financial crisis,” has spawned an impressive outpouring of blame. The efficient market hypothesis (EMH)—the idea that competitive financial markets exploit all available information when setting security prices—has been singled out for particular attention. Like all successful theories, the EMH has major limitations, even as it continues to provide the foundation for not only past accomplishment, but future advances in the field of finance.

Despite the theory's undoubted limitations, the claim that it is responsible for the current worldwide crisis seems wildly exaggerated. This essay shows the misreading of the theory and logical inconsistencies involved in popular arguments that EMH played a significant role in (1) the formation of the real estate and stock market bubbles, (2) investment practitioners' miscalculation of risks, and (3) the failure of regulators to recognize the bubbles and avert the crisis. At the same time, the author argues that the collapse of Lehman Brothers and other large financial institutions, far from resulting from excessive faith in efficient markets, reflects a failure to heed the lessons of efficient markets. In the author's words, “To me, Lehman's demise conclusively demonstrates that, in a competitive capital market, if you take massive risky positions financed with extraordinary leverage, you are bound to lose big one day—no matter how large and venerable you are.”

Finally, behavioral finance, widely considered as challenging and even supplanting efficient markets theory, is viewed in this article as complementing if not reinforcing efficient markets theory. As the author says, “it takes a theory to beat a theory.” Behavioralism, for all its important contributions to finance literature, is described as not a theory but rather “a collection of ideas and results”—

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

## ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

## HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

## OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

## CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

**WILEY**

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)