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Stock Exchanges

➤ What is a Stock?

- An Instrument that signifies an ownership position (called Equity) in a corporation, and represents a claim on its proportional share in the corporation's assets and profits.

➤ What is Stock Exchange?

- The securities regulation act of 1956 defined stock exchange as "an association, organization, or a individual which is established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.“
- In other words . Stock exchange can be defined as an organized market for the purchase and sale of industrial and financial securities as per certain well defined rules and regulations.
- Indian Stock market is among the oldest and the most robust markets in Asia.

Functions of Stock Exchange

- **Economic Barometer:** A stock exchange is a solid barometer to gauge the economic circumstance of a country. A stock exchange is also known as a pulse of the economy or economic mirror which reflects the economic conditions of a country.
- **Pricing of Securities:** The stock market helps to assess the securities on the basis of demand and supply factors. The securities of effective and growth-oriented organisations are estimated higher as there is more demand for such securities.
- **Safety of Transactions:** In the stock market only the indexed securities are traded and stock exchange authorities include the corporations named in the trade list only after verifying the soundness of the organisation. The organisations which are listed also have to function within the stringent rules and regulations. This guarantees the security of dealing through the stock exchange.
- **Contributes to Economic Growth:** In stock exchange securities of various organisations are traded. This method of disinvestment and reinvestment helps to invest in the most productive investment proposal and this leads to capital structure and economic growth.

- **Spreading of Equity Cult:** Stock exchange urges people to invest in ownership securities by managing new issues, better trading practices and by educating the people about investment.
- **Providing Scope for Speculation:** To assure liquidity and demand of supply of securities the stock exchange allows healthy consideration of securities.
- **Liquidity:** The principal purpose of the stock market is to present a ready market for sale and purchase of securities. The presence of the stock exchange market gives certainty to investors that their investment can be transformed into cash whenever they want.
- **Better Allocation of Capital:** The shares of profit-making organisations are valued at higher prices and are actively traded so such organisations can efficiently raise capital from the stock market.
- **Promotes the Habits of Savings and Investment:** The stock market gives attractive chances for investment in different securities. These attractive opportunities inspire people to save more and invest in securities of the corporate sector rather than investing in unfruitful assets such as gold, silver, etc.,

Features of Stock Exchange

- **A market for securities-** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities-** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities-** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities-** Only listed securities recorded in the exchange office can be traded.
- **Transaction-** Only through authorised brokers and members the transaction for securities can be made.
- **Recognition-** It requires to be recognized by the central government.
- **Measuring device-** It develops and indicates the growth and security of a business in the index of a stock exchange.
- **Operates as per rules—** All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

The History of Stock Exchanges in India

- Indian stock market marks to be one of the oldest stock market in Asia.
- It dates back to the close of 18th century when the East India Company used to transact loan securities.
- In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading was broad but the brokers were hardly half dozen during 1840 and 1850.
- An informal group of 22 stockbrokers began trading under a banyan tree opposite the Town Hall of Bombay from the mid-1850s, each investing a (then) princely amount of Rupee 1.
- In 1860, the exchange flourished with 60 brokers.
- In fact the 'Share Mania' in India began with the American Civil War broke and the cotton supply from the US to Europe stopped.
- Further the brokers increased to 250.
- The informal group of stockbrokers organized themselves as the The Native Share and Stockbrokers Association which, in 1875, was formally organized as the Bombay Stock Exchange (BSE).



National Stock Exchange of India Limited



National Stock Exchange (NSE)

- The National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the second largest in the world by nos. of trades in equity shares from January to June 2018, according to World Federation of Exchanges (WFE) report.
- NSE launched electronic screen-based trading in 1994, derivatives trading (in the form of index futures) and internet trading in 2000, which were each the first of its kind in India.
- NSE has a fully-integrated business model comprising our exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members and listed companies with the rules and regulations of the exchange.
- NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.
- Mr. Vikram Limaye is the Managing Director and CEO of NSE.

Bombay Stock Exchange (BSE)

- Established in 1875, BSE (formerly known as Bombay Stock Exchange), is Asia's first & the Fastest Stock Exchange in world with the speed of 6 micro seconds and one of India's leading exchange groups.
- Over the past 143 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as 'The Native Share & Stock Brokers' Association' in 1875. In 2017 BSE become the 1st listed stock exchange of India.
- Today BSE provides an efficient and transparent market for trading in equity, currencies, debt instruments, derivatives, mutual funds. BSE SME is India's largest SME platform which has listed over 250 companies and continues to grow at a steady pace.
- BSE StAR MF is India's largest online mutual fund platform which process over 27 lakh transactions per month and adds almost 2 lakh new SIPs ever month. BSE Bond, the transparent and efficient electronic book mechanism process for private placement of debt securities, is the market leader with more than Rs 2.09 lakh crore of fund raising from 530 issuances. (F.Y. 2017-2018).

Over the Counter Market

- An over-the-counter (OTC) market is a decentralized market in which market participants trade stocks, commodities, currencies or other instruments directly between two parties and without a central exchange or broker.
- Over-the-counter markets do not have physical locations; instead, trading is conducted electronically.
- In an OTC market, dealers act as market-makers by quoting prices at which they will buy and sell a security, currency, or other financial products.
- A trade can be executed between two participants in an OTC market without others being aware of the price at which the transaction was completed.
- In general, OTC markets are typically less transparent than exchanges and are also subject to fewer regulations.
- One of the most common risks in OTC trades is counterparty risk. Counterparty risk is the risk that a counterparty in a transaction will default before the expiration of the trade and will not make the current and future payments required by the contract.

Operational Efficiency

- Operational efficiency is a measure of how much costs are incurred during a given economic or financial activity, where lower costs equals greater efficiency.
- For investors and traders, markets exhibit operational efficiency when transaction costs are low.
- Offering bulk discounts or free commissions to traders is one way to increase the operational efficiency of investment markets.
- Operational efficiency and markets that are operationally efficient can help improve the overall effectiveness of investment portfolios.
- Greater operational efficiency in investment markets means that capital can be allocated without excessive cost of friction, which reduces a portfolios risk/reward profile.