



UNIT III

FINANCIAL MARKETS - II



7

CHAPTER

STOCK EXCHANGE

பொருளென்னும் பொய்யா விளக்கம் இருளுக்குக்
எண்ணிய தேயத்துச் சென்று.

—குறள் 753



COUPLET

The imperishable light of wealth goes into regions desired (by its owner) and destroys the darkness (of enmity therein).



Learning Objectives

To enable the students to understand the

- Origin, Meaning and Definition of Stock Exchange
- Functions and Features of Stock Exchange
- Benefits and Limitations of Stock Exchange
- Stock Exchanges in India
- Stock Exchange Traders
- Types of Speculators
- Difference between Stock Exchange and Commodity Exchange
- Recent Development in Stock Exchange

Chapter Synopsis

- 7.01 Stock Exchange – Origin, Meaning and Definition
- 7.02 Functions of Stock Exchange
- 7.03 Features of Stock Exchange
- 7.04 Benefits and Limitations of Stock Exchange
- 7.05 Stock Exchanges in India
- 7.06 Types of Speculators
- 7.07 Stock Exchange Vs Commodity Exchange
- 7.08 Recent Development in Stock Exchange

Stock exchanges contribute in a huge measure to the growth and expansion of national business and to the ultimate benefit and well-being of the national economy and its people. They provide an ideal conduit through which enormous amounts of capital flows through the interconnected network of financial organizations to all corporate enterprises in the country. Thus, stock exchanges ensure liquidity and transferability of financial assets that are dealt with.

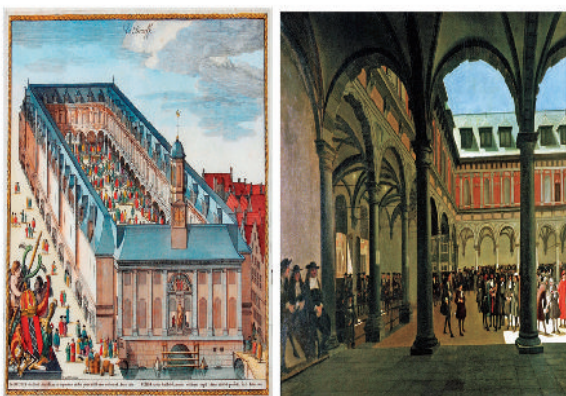
THE STOCK EXCHANGE

Stock exchanges and organized market provide a place for the investors to buy and sell securities freely. The market offers perfectly competitive conditions where a large number of sellers and buyers participate. Further, stock exchanges provide an auction market in which members of the exchange participate to ensure continuity of price and liquidity to investors.

The efficient functioning of the stock exchange is responsible for creating a conducive climate for an active and growing primary market for new issues. Moreover, an active and a healthy secondary market in existing securities leads to a better psychology of expectations, considerably broadening the investment enquiries and thereby, rendering the task of raising resources by entrepreneurs easier. Good performance and outlook for equities in the stock exchanges imparts buoyancy to the new issue market.

7.01 Stock Exchange – Origin, Meaning, Definition

Origin



Amsterdam Stock Exchange is considered as the oldest stock exchange in the world. It was established in the year 1602 by Dutch East India company called VerenigdeOost-IndischeCompagnie called 'VOC'. It was later rechristened as "Amsterdam Bourse". The first stock exchange in India was "The Native Shares and Stock

Brokers Association". It was recognized by Government of India on Aug 31, 1957 under Securities Contract (Regulation) Act, 1956. It became The Bombay Stock Exchange subsequently.

Meaning

Stock Exchange (also called Stock Market or Share Market) is one of the important constituents of Capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is a convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations. It performs various functions and offers useful services to investors and borrowing companies. It is an investment intermediary and facilitates economic and industrial development of a country.

Stock exchange is an organized market for buying and selling corporate and other securities. Here, securities are purchased and sold out as per certain well-defined rules and regulations. It provides a convenient and secured mechanism or platform for transactions in different securities. Such securities include shares and debentures issued by public companies which are duly listed at the stock exchange, and bonds and debentures issued by government, public corporations and municipal and port trust bodies.

Stock exchanges are indispensable for the smooth and orderly functioning of corporate sector in a free market economy. A stock exchange need not be treated as a place for speculation or a gambling den. It should act as a place for safe and profitable investment, for this, effective control on the working of stock exchange is necessary. This will avoid misuse of this platform for excessive speculation, scams and other undesirable and anti-social activities.



London stock exchange (LSE) is the most popular stock exchange in the world. While **Bombay stock exchange** (BSE) is the oldest stock exchange in India. Similar Stock exchanges exist and operate in other parts of the world. (Tokyo Stock Exchange, Bankgaco Stock Exchange, Singapore Stock Exchange, Dubai Stock Exchange, Newyork Stock Exchange)

Definition

According to Husband and Dockerary, "Stock exchanges are privately organized markets which are used to facilitate trading in securities."

The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, "An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

7.02 Functions of Stock Exchange:

The various functions of a Stock Exchange are explained below.

The various functions of a Stock Exchange are explained below.

1. Ready and Continuous Market

Stock Exchange is, in fact, a market for existing securities. If an investor wants to sell his securities, he can easily and quickly dispose them off on a stock exchange. In other words, he can convert his shares into cash and with the same ease he can convert his cash into securities. This easy marketability of securities increases their liquidity (conversion of securities into cash easily and quickly) and consequently raises their value.

2. Correct Evaluation of Securities

The prices at which securities are bought and sold are recorded and made public. These prices are called "market quotations". One can

easily evaluate the worth of one's securities on the basis of these quotations. The lender can easily assess the worth of security offered for loan.

3. Protection to Investors

All dealings in a stock exchange are in accordance with well-defined rules and regulations. For example, brokers cannot charge higher rate of commission for their services. Any malpractice will be severely punished. Thus stock exchange provides reasonable measure of safety and fair dealing in buying and selling of securities.

4. Proper Chanalisation of Capital

People like to invest in the shares of such companies which yield good profits. The savings of individuals are directed towards promising companies which declare good dividends over a period of time. But for the stock exchanges, these savings are likely to be wasted on the shares of unprofitable units.

5. Aid to Capital Formation

The publicity which the stock exchange gives to various industrial securities and their prices and the facilities provided by it for their purchase and sale induce people to save and invest. Stock exchanges thus ensure a steady flow of capital into industry and assists industrial development.

6. Facilities for Speculation

Speculation is an integral part of stock exchange operations. As a result of speculation, demand for and supply of securities are equalized. Similarly, price movements are rendered smoothly.

7. Seasoning of Securities

Speculators and underwriters hold for a temporary period, securities issued by new companies. They unlock them when the market is prepared to absorb the new issues.

8. Clearing House of Business Information

Listed companies are required to furnish all important information relating to capital

management, dividend distribution etc, and forward copies of financial statements, annual reports etc, to the stock exchange. They publish every year, books detailing the financial position of companies. Thus, it gives vital information to the investing public for deciding on investment.

7.03 Features of Stock Exchange:

These are various qualities of a Stock Exchange. Such qualities are enumerated below:

1. Market for Securities

Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

2. Deals in Second Hand Securities

It deals with shares, debentures bonds and such securities already issued by the companies. In short, it deals with existing or second hand securities and hence it is called secondary market.

3. Regulates Trade in Securities

Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities for trade in securities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.

4. Allows Dealings only in Listed Securities

In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.

5. Transactions Effected only through Members

All the transactions in securities at the stock exchange are effected only through its authorised brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors

have to buy or sell the securities at the stock exchange through the authorised brokers only.

6. Association of Persons

A stock exchange is an association of persons or body of individuals which may be registered or unregistered.

7. Recognition from Central Government

Stock exchange is an organised market. It requires recognition from the Central Government.

8. Working as per Rules

Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI Guidelines. No deviation from the rules and guidelines is allowed in any case.

9. Specific Location

Stock exchange is a particular market place where authorised brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The prices of different securities traded are shown on electronic boards. After the working hours market is closed. All the working of stock exchanges is conducted and controlled through computers and electronic system.

10. Financial Barometers

Stock exchanges are the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the index of stock exchange.

7.04 Benefits and Limitations of Stock Exchange

The Benefits of Stock Exchange are classified into Benefits to the Community, Company and Investors.

A. Benefits to the Community

i. Economic Development

It accelerates the economic development by ensuring steady flow of savings into productive purposes.



ii. Fund Raising Platform

It enables the well-managed, profit-making companies to raise limitless funds by fresh issue of shares from time to time.

iii. Tools to Divert Resources

Scarce resources are thus diverted to efficiently run enterprises for better utilization.

iv. Capital Formation

It encourages capital formation.

v. Fund Raiser for Government

It enables Government to raise funds for undertaking projects through sale of securities on the stock exchange. Thus stock exchange serves as a platform for raising public debt.

B. Benefits to the Company

i. Enhances Goodwill or Reputation

Companies whose shares are quoted on a stock exchange enjoy greater goodwill and credit standing.

ii. Wide Market

There is a wide and ready market for such securities.

iii. Raises huge funds

Stock Exchange can raise huge funds easily by issue of shares and debentures.

iv. Increases bargaining strength

Companies whose shares rise in the stock exchange command higher bargaining power in the event of further expansion, merger or amalgamation.

C. Benefits to Investors

i. Liquidity

Stock exchange helps an investors to convert his shares into cash quickly and thus increases the liquidity of his investments.

ii. Adding collateral value of security

The fact that a security is dealt on a stock exchange makes it a good collateral security for obtaining loan from banks.

iii. Investor protection

The stock exchange safeguards, investor's interest and ensures fair dealing by strictly enforcing its rules and regulations.

iv. Assessing real worth of security

An investor can easily assess the real worth of securities in his hands, as market quotations are published daily in the newspapers and in websites.

v. Mechanism to trade security

Stock Exchange provides a mechanism by which purchase and sale of listed securities take place in a matter of few minutes.

Limitations of Stock Exchange:

The limitations of stock exchange are as follows

- i. Lack of uniformity and control of stock exchanges.
- ii. Absence of restriction on the membership of stock exchanges.
- iii. Failure to control unhealthy speculation.
- iv. Allowing more than one charge in the place.
- v. Non-insistence of margin requirement in stock exchange or in the case of produce exchanges.
- vi. No proper regulation of listing of securities on the stock exchange.

7.05 Stock Exchanges In India:

There are 24 stock exchanges in the country, with 21 of them being regional in nature. Three others that have been set up in the reforms era, viz., National Stock Exchange (NSE), the Over the Counter Exchange of India Limited (OTCEI), and Interconnected Stock Exchange of India Limited (ISE) have mandate to nationwide trading network. The ISE has been promoted by 15 regional stock exchanges in the country and is based at Mumbai. The ISE provides a member-broker of any of these stock exchanges an access into the national market segment, which would be in addition to the local trading segment available at present.

The NSE, OTCEI, ISE, and majority of the regional stock exchanges have adopted the Screen Based Trading System (SBTS) to provide automated and modern facilities for trading in a transparent, fair and open manner with access to investors across the country.



Following are the names of the various stock exchanges in India:

- i. The Bombay Stock Exchange
- ii. The Ahmedabad Stock Exchange Association Ltd.
- iii. Bangalore Stock Exchange Ltd.
- iv. Bhubaneswar Stock Exchange
- v. The Calcutta Stock Exchange Association Ltd.
- vi. The Cochin Stock Exchange Ltd.
- vii. The Delhi Stock Exchange Association Ltd.
- viii. The Guwahati Stock Exchange Ltd.
- ix. The Hyderabad Stock Exchange Ltd.
- x. The Jaipur Stock Exchange Ltd.
- xi. The Kanara Stock Exchange Ltd.
- xii. The Ludhiana Stock Exchange Association Ltd.

- xiii. The Madras Stock Exchange Ltd.
- xiv. The Madhya Pradesh Stock Exchange Ltd.
- xv. The Magadh Stock Exchange Ltd.
- xvi. The Mangalore Stock Exchange Ltd.
- xvii. The Pune Stock Exchange Ltd.
- xviii. The Saurashtra Kutch Stock Exchange Ltd.
- xix. The Vadodra Stock Exchange Ltd.
- xx. The Coimbatore Stock Exchange Ltd.
- xxi. The Meerut Stock Exchange Ltd.
- xxii. The Over The Counter Exchange of India (OTCEI)
- xxiii. The National Stock Exchange of India (NSE) Ltd.
- xxiv. The Interconnected Stock Exchange of India Ltd.

Top 10 Stock Exchanges in the World.

As on January 31st, 2017, the ten biggest stock exchanges in the world by market capitalisation of listed securities are:

- i. **The New York Stock Exchange** - Located in New York City; \$19.223 trillion in listed market capitalization.
- ii. **NASDAQ** - Short for the "National Association of Securities Dealers Automated Quotation", this electronic stock exchange is located in New York City; \$6.831 trillion in listed market capitalization.
- iii. **London Stock Exchange** - Located in London, England; \$6.187 trillion in listed market capitalization.
- iv. **Tokyo Stock Exchange** - Formally known as the Japan Exchange Group, located in Tokyo, Japan; \$4.485 trillion in listed market capitalization.
- v. **Shanghai Stock Exchange** - Located in Shanghai, China; \$3.986 trillion in listed market capitalization.

- vi. **Euronext** - Located throughout Europe (France, Portugal, The Netherlands, and Belgium); \$3.321 trillion in listed market capitalization.
- vii. **Hong Kong Stock Exchange** - Located in Hong Kong, Hong Kong; \$3.325 trillion in listed market capitalization.
- viii. **Shenzhen Stock Exchange** - Located in Shenzhen, China; \$2.285 trillion in listed market capitalization.
- ix. **TMX Group** - The Canadian stock exchange is located in Toronto, Canada; \$1.939 trillion in market capitalization.
- x. **Bombay Stock Exchange** - Located in Mumbai, India; \$1.682 trillion in market capitalization.

REMISERS

He acts as an agent of a member of a stock exchange. He obtains business for his principal i.e., the member and gets a commission for that service.

AUTHORIZED CLERKS

The authorised clerks are mere employees of the members, appointed by the member of stock exchange. The authorised clerks transact business on behalf of their employers on the floor of the stock exchange. They are paid a salary, plus a commission.

BROKERS

Brokers are commission agents, who act as intermediaries between buyers and sellers of securities. They do not purchase or sell securities on their behalf. They bring together the buyers and sellers and help them in making a deal. Brokers charge a commission from both the parties for their service. Brokers are experts in estimating trends of price and can effectively advise their clients in getting a fruitful gain. Brokers get orders from investing public and execute the orders through Jobbers and they are entitled to a prescribed sale of brokerage.

JOBBERS

Jobbers are security merchants dealing in shares, debentures as independent operators. They buy and sell securities on their own behalf and try to earn through price changes. Jobbers cannot deal on behalf of public and are barred from taking commission. In India, they are called Taravaniwalas.

SPECULATION

Speculation involves trading a financial instrument involving high risk, in expectation of significant returns. The motive is to take maximum advantage from fluctuations in the market. Speculators are prevalent in the markets where price movements of securities are highly frequent and volatile.

GAMBLING

There is no reasoning involved in gambling. It accentuates fluctuations in price and it is unethical and illegal. It does not perform economic function.

7.06 Types of Speculators

Speculators in a stock market are of different types. They carry their names depending on their motive of trading in the stock exchange. They are named after animals as their behavior could be compared best with the behavior of animals.

Bull



A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future. In anticipation of price rise he makes purchases of shares at present and other securities with the intention to sell at higher prices in future. He is

called bull because just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise. He is an optimistic speculator.

Bear



A bear or Mandiwala speculator expects prices to fall in future and sells securities at present with a view to purchase them at lower prices in future. A bear does not have securities at present but sells them at higher prices in anticipation that he will supply them by purchasing at lower prices in future. A bear usually presses its victim down to ground. Similarly the bear speculator tends to force down the prices of securities. A bear is a pessimistic speculator.

Stag



A stag is a cautious speculator in the stock exchange. He applies for shares in new companies and expects to sell them at a premium, if he gets an allotment. He selects those companies whose shares are in more

demand and are likely to carry a premium. He sells the shares before being called to pay the allotment money. He is also called a premium hunter.

Lame Duck



When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck. A bear speculator contracts to sell securities at a later date. On the appointed time he is not able to get the securities as the holders are not willing to part with them. In such situations, he feels concerned. Moreover, the buyer is not willing to carry over the transactions.

7.07 Stock Exchange Vs Commodity Exchange

The key difference between commodity exchange and stock exchange is that a commodity exchange is an exchange where commodities are traded whereas stock exchange is an exchange where stock brokers and investors buy and / or sell stocks, bonds, and other securities. Both types of exchanges are driven by the demand and supply for commodities or financial instruments. An exchange facilitates a trading platform for buyers and sellers to meet and conduct transactions. With the increase in the opportunities provided by the commodity and exchange markets, they are able to attract a growing customer base.

Stock Exchange Vs Commodity Exchange.

Sl.No	Feature	Stock Exchange	Commodity Exchange
1.	Meaning	Stock Exchange (also called Stock Market or Share Market) is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations.	<p>A commodity exchange is an exchange where commodities are traded. Tradable commodities fall into the following categories.</p> <p>Metals (e.g. gold, silver, copper) Energy (e.g. crude oil, natural gas) Agricultural (e.g. rice, wheat, cocoa) Livestock and meat (e.g. live cattle, lean hog)</p>
2.	Function	Providing easy marketability	Offering hedging or price insurance services and liquidity to securities.
3.	Object	Object is facilitating capital formation and making best use of capital resources	Object is facilitating goods flow through risk reduction
4.	Participants	Investors and Speculators	Producers, dealers, traders and a body of speculators.
5.	Period of dealings	Cash, ready delivery and dealings for account for a fortnight	Instant cash dealings and a settlement period of 2 or 3 months for Future Market dealings
6.	Articles Traded	Industrial securities such as stocks and bonds and government securities.	Only durable, graded and goods having large volume of trade, price uncertainty and uncontrolled supply
7.	Speculation	Speculation ensures saleability of securities affording a broad, ready, liquid and continuous market of securities.	Speculation ensures assumption and absorption of price risk.
8.	Forward contract	Forward dealings are simplified as securities are fully standardized	Standards are to be fixed for deliverable grades to facilitate futures contract
9.	Cornering	As seller has to deliver the agreed securities, cornering is easy	Cornering is difficult as the seller has option to deliver standard or other deliverable goods.
10.	Price Quotation	As regards forward dealings, only one quotation is possible	For future dealings, multiple quotations are possible

7.08 Recent Development in Stock Exchange

The structure of stock market in India has undergone a vast change due to the liberalization process initiated by the Government. A number of new structures have been added to the existing structure of the Indian stock exchange. A brief description of these structures in the Indian stock market system is presented below:

National Stock Market System (NSMS)

National stock market system was advocated by the - High Powered Group on the Establishment of New Stock Exchanges headed by Shri.M.J.Pherwani (popularly known as Pherwani Committee). At present the National Stock Market in India comprises the following:

1. National Stock Exchange of India Limited (NSE)
2. Stock Holding Corporation of India Limited (SHCIL)
3. National Clearing and Depository System (NCDS)
4. Securities Trading Corporation of India (STCI)
5. National Securities Depository Limited (NSDL)

1. National Stock Exchange (NSE)



NSE was incorporated in November, 1992. It is a country wide, screen based, online and order driven trading system. It uses satellite link to spread trading throughout the country thereby connecting members scattered all over the India. Through computer network, member's

orders for buying and selling within prescribed price are matched by central computer with each other and instantly communicate to the trading member. NSE has two segments, i.e., Debt segment and Capital segment. It has ushered in transparent, screen based and user friendly trading of global standards. It has revolutionised stock trading in India.

2. Stock Holding Corporation of India Limited (SHCIL)



The Stock Holding Corporation of India Ltd (SHCIL) is committed to speed up trading, clearance and settlement services for securities and monetary instruments. SHCIL came into being in 1986. SHCIL is the first depository participant registered with SEBI and acts as an agent of the National Securities Depository. It started its actual operations in 1988. It has its head office in Bombay, and its branch network covers Kolkatta, Delhi and Chennai.

3. National Clearance and Depository System (NCDS)



This system was created chiefly to help overcome the problem of settlement and clearance of transactions consequent to enormous workload on the clearing agencies and share transfer agencies. The problems mainly

arose out of systematic risk like counter party risk, credit risk, bad deliveries, long delayed delivery, counterfeit scrips, and forged scrips.

4. Securities Trading Corporation of India (STCI)



STCI Finance Limited

The Reserve Bank of India set up Securities Trading Corporation of India Limited (STCI) in May 1994, under the provisions of the Indian Companies Act, 1956, jointly with public sector banks and All-India financial institutions. The main objective of establishing the Corporation was to foster the development of an active secondary market for Government securities and bonds issued by public sector undertakings. It had an authorized and paid-up capital of Rs. 500 crores of which, RBI contributed 50.18 percent. The RBI in December 1997 divested part of its equity in STCI in favor of the Bank of India, an existing shareholder of the Company.

5. National Securities Depository Limited (NSDL)



The Government of India enacted the Depositories Act in August 1996, paving the way for setting up of depositories in India. Thus, pioneering the concept of depositories and ushering in an era of paperless settlement of securities. National Securities Depository Ltd

(NSDL) was inaugurated as the first depository in India on November 8, 1996. Trading in dematerialized securities on the National Stock Exchange (NSE) commenced in December 26, 1996. The Bombay Stock Exchange, (BSE) also extended the facility of trading in dematerialized securities from December 29, 1997.



NIFTY

The word Nifty originates from 2 words, 'National' and 'Fifty'. Nifty basically means the index of the 50 most actively traded stocks from across all sectors. Nifty represents the top stocks of the NSE and when we talk about Nifty going up, it means that all the heavyweight stocks of NSE across all sectors are moving up. Most of the stock trading in the country is done through



NSE and BSE. There are other stock exchanges as well, like the Calcutta stock exchange, but they are not that popular. Nifty consists of top 50 companies from 24 different sectors. Nifty is computed from the performance of top stocks from different sectors. Some mutual funds use Nifty as a benchmark. The performance of the mutual funds is assessed against the performance of the Nifty. On NSE, futures and options are available for trading with the Nifty as an underlying index. Nifty is calculated by using the market capitalization weighted method according to which weights are assigned according to the size of the company. Larger the size, larger the weightage.



SENSEX

Sensex is an index of the stocks in BSE (Bombay Stock Exchange). Sensex has a list of 30 stocks. BSE decides the stocks that are to be listed on Sensex. The criteria for picking a stock to be listed on Sensex is volume of the trade of that stock and total volume of the stock in BSE.



Based on the above said factors, BSE regularly prepares a set of 30 stocks which will be together called as SENSEX. BTW Sensex means sensitive Index Now each stock is allotted a weight-age according to a criteria and the criteria also keeps on changing with time. So now stocks are normally traded in BSE each day and price of stocks is determined according to demand and supply



Stock Trading Timings in India

There are two major stock exchanges in India- Bombay stock exchange (BSE) and National stock exchange (NSE). However, the timing of both BSE & NSE is the same. First of all, you need to know that the stock market in India is closed on weekends i.e. Saturday and Sunday. It is also closed on the national holidays. The normal trading time for equity market is between 9:15 a.m to 03:30 p.m, Monday to Friday.

The trading time for commodity (MCX) market is between 10:00 a.m. to 11:30 a.m. Monday to Friday.

The normal trading time for Agri-community (NCDEX) market is between 10:00 a.m. to 05:00 p.m. Monday to Friday. In addition, there is no lunch break or tea break in the Indian stock market timings. The timings of the Indian stock market are divided into three sessions:

1. Normal session (also called continuous session)
2. Pre-opening session
3. Post-closing session



Future Market

A Future market is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date. Examples of futures markets are the New York Mercantile Exchange, the Kansas City Board of Trade, the Chicago Mercantile Exchange, the Chicago Board of Options Exchange and the Minneapolis Grain Exchange. Originally, trading was carried on through open yelling and hand signals in a trading pit, though in the 21st century, like most other markets, futures exchanges are mostly electronic.



Options Market

An 'option' is a choice based mutual agreement that allows (but need not mandatory) trading between two parties to buy or sell or trade instruments like securities, ETFs (Exchange Traded Fund), or index funds at a fixed cost and in a specified period. This market is called as options market. There are two types of options call and put option. The call option is referred to when the activity of investor purchase of financial instruments in near future. Contradictory to this, put option is an activity by which the trader could sell the share as agreed upon in the original option contract.



They can be used as:

Leverage: Options help you profit from changes in share prices without putting down the full price of the share. You get control over the shares without buying them outright.

Hedging: They can also be used to protect yourself from fluctuations in the price of a share and letting you buy or sell the shares at a pre-determined price for a specified period of time



Dalal Street

Dalal Street is an area in downtown Mumbai, India, that houses the Bombay Stock Exchange (BSE) – the largest stock exchange in India – and other reputable financial institutions. It received the name Dalal Street after the Bombay Stock Exchange moved to the area in 1874 and became the first stock exchange recognized by the Indian Government.



The literal translation of Dalal in Marathi is a broker or intermediary. Today, Dalal Street is a metonym for the entire Indian financial sector much like Wall Street in the United States.



Lombard Street

Lombard Street, London, is a street notable for its connections with the City of London's merchant, banking and insurance industries, stretching back to medieval times.

From Bank junction, where nine streets converge by the Bank of England, Lombard Street runs southeast for a short distance before



bearing left into a more easterly direction, and terminates at a junction with Grace church Street and Fenchurch Street. Its overall length is 260 metres. It has often been compared with Wall Street in New York City



Wall Street

Wall Street is a street in lower Manhattan that is the original home of the New York Stock Exchange and the historic headquarters of the largest U.S. brokerages and investment banks. The term Wall Street

is also used as a collective name for the financial and investment community, which includes



stock exchanges and large banks, brokerages, securities and underwriting firms, and big businesses. Today, brokerages are geographically diverse, allowing investors free access to the same information available to Wall Street's tycoons.



Key Words

Stock Exchange	Commodity Exchange
Rechristened	Brokers
Jobbers	Clearing House
Investors	Speculators
Optimistic	Pessimistic



For Own Thinking

2. Read the Business Section of a daily newspaper or a specialised Business Newspaper. Locate the segment where share prices of important stock exchanges are given. Select any five companies and record their share prices everyday for a period of three weeks. Observe their price movement and see how major events in the economic, political or social environment affect the prices of these shares. You may even get information about these share prices from the television.



For Own Thinking

1. Identify any two persons in your vicinity who are associated with the financial market/stock exchanges, either as an investor or as a stockbroker. Talk to them and find out (i) how sale and purchase of securities takes place; (ii) what are the popular instruments traded in the market; and (iii) about recent SEBI/ government guidelines that may have affected their transactions.



For Future Learning

1. Study the website of Mumbai Stock Exchange, i.e., www.bseindia.com and compile information which you find useful. Discuss it in your class and find out how it can help you to invest in the stock market. Prepare a report on your findings with the help of your teacher.



Case Study

1. Raj and Ajay are good friends. Raj is very god-fearing kind, while Ajay was an enterprising person, having practical in approach. Read the following conversation.

Raj : Hi, Ajay! What are you doing?

Ajay : Hi, I am reading the newspaper - financial market page that gives us information about the shares price.

Raj : Shares, that is an area of big gambles.

Ajay : No, not really! You must understand how it works.

Raj : Frankly speaking, I think this Capital market is all a gambling game and I don't see any use of them.

Ajay : No, you are seriously mistaken; you do not know the importance of capital market. I will tell how it is needed for an individual and an economy.

You are required to play the role of Ajay and continue the conversation.



Exercise



I. Choose the Correct Answers:

1. ____ is the oldest stock exchange in the world.
 - a) London Stock Exchange
 - b) Bombay Stock Exchange
 - c) National Stock Exchange
 - d) Amsterdam Stock Exchange
2. There are ____ stock exchange in the country.
 - a) 21
 - b) 24
 - c) 20
 - d) 25
3. Jobbers transact in a stock exchange
 - a) For their Clients
 - b) For their Own Transactions
 - c) For other Brokers
 - d) For other Members
4. A pessimistic speculator is
 - a) Stag
 - b) Bear
 - c) Bull
 - d) Lame Duck
5. An optimistic speculator is
 - a) Bull
 - b) Bear
 - c) Stag
 - d) Lame duck

Answers:

1	d	2	b	3	b	4	b	5	a
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II. Very Short Answer Questions:

1. What is meant Stock Exchange?
2. Write any 5 Stock Exchanges in India.
3. What is meant by Remisier?
4. Who is called a Broker?
5. What are the types of Speculator?

III. Short Answer Questions:

1. What are the limitations of Stock exchange? (any 3)
2. Explain Bull and Bear.
3. Explain Stag and Lame Duck.

IV. Long Answer Questions:

1. Explain the functions of Stock Exchange. (Any 5)
2. Explain the features of Stock Exchange. (Any 5)
3. Distinguish between Stock Exchange and Commodity Exchange (any 5).

References:

1. Dr.SUNDAR,K 2017, Business Organisation, Vijay Nicble Imprints Pvt Ltd.,Chennai.
2. Dr.S.GURUSAMY 2012, Financial Markets and Institutions
3. <https://dollarsandsense.sg/10-biggest-stock-exchanges-world-heres-much-theyve-gained-2017/>