The Stock Exchange

STOCK EXCHANGE
- CORPORATE SECURITIES (e.g. shares)
- GOVERNMENT SECURITIES (e.g. bonds)

STOCK MARKET
- PRIMARY MARKET
- SECONDARY MARKET

INVESTORS
Profit in the long term through DIVIDENDS or CAPITAL GAIN

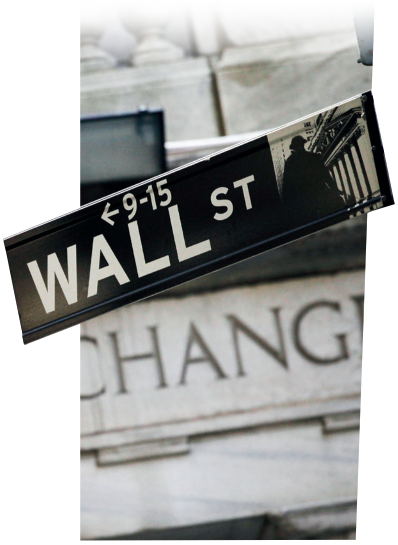
VS

SPECULATORS
Profit in the short term

The **Stock Exchange** is a physical or electronic share/security market for trading financial assets, such as shares, bonds/debentures or other financial products. Securities issued by a Plc are known as **corporate securities**, whereas government or public corporations issue bonds, or **government securities**, to raise funds.

Stock Exchanges provide:
- a reliable barometer to measure periods of economic boom or recession;
- a way to raise and mobilise capital for small and large investors;
- a way for companies to expand, either by raising capital through the sale of shares, or through integration;
- instruments for governments to raise capital.

The stock market is made up of a **primary** and a **secondary market**. A private company sells its stocks to investors for the first time at a base price, called IPO (initial public offering), in the primary market through an investment bank, and once it has become publicly held, the subsequent trading is done in the secondary market, i.e. the Stock Exchange.



Financial trading is carried out by investors, who hope to make a profit either in the long term, through dividends, or through capital gain, due to the increase in the value of securities over time. Speculators, on the other hand, are short-term investors who risk by continually buying and selling shares. They are gamblers who bet on the Stock Market trend to make quick profits from favourable changes in share prices. These are, in fact, volatile and rise or fall every day according to demand and supply: if demand for a stock is high, its price increases; conversely, if investors sell stocks and supply increases, its price falls. However, stock prices change for other factors too, such as speculations or unforeseen political, environmental or social events. What makes people like a particular stock and dislike another is unpredictable and generally depends on how investors rate a company and its future profits.

Among the 60 major stock markets in the world, with both a trading floor (a physical area in the Stock Exchange premises where traders operate) and an electronic trading system, the most important are those that deal with big world companies by market capitalisation (i.e. their total market value calculated by multiplying their unit share price by the total number of owned shares): New York Stock Exchange (NYSE) and Nasdaq (National Association of Securities Dealers Automated Quotation, the first automated Stock Exchange), Tokyo, London Stock Exchange (LSE), Shangai and Hong Kong.

1 Answer these questions.

1. Why do governments and companies issue securities?
2. What does a positive or negative trend in the stock market mirror?
3. What can a company take advantage of on the stock market?
4. What is the difference between a primary and a secondary stock market?
5. What is an IPO?
6. What is the difference between investors and speculators?
7. Why are share prices volatile?.
8. What does market capitalisation of a company mean?

Culture note
Trading of shares may have begun as early as 9000 BC, at which time tokens, which were made out of clay, were used for accounting and financial purposes.

2 Fill in the gaps transforming the word in bracket into a suitable form (noun, adjective, adverb or verb).

Shares vs. Bonds

Stocks and bonds are the two main classes of assets **1.** .... (invest) use in their portfolios. Stocks offer an **2.** .... (own) portion in a company, while bonds are **3.** .... (similarity) to loans made to a company (a corporate bond) or other **4.** .... (organise). In general, stocks are considered more volatile and **5.** .... (risk) than bonds, but there are lots of different kinds of stocks and bonds, with varying levels of volatility, risk and return.
Stocks, or shares, are units of property in a company, which is given a value, also called market **6.** .... (capital) or market cap, by the total value of all its **7.** .... (public) issued stocks. The unit price of a share is given by the market cap divided by the number of shares in circulation. Stocks are sold to investors at the time of an IPO (Initial Public Offering) and later on stock **8.** .... (change) like the NASDAQ and the NYSE, which offer great **9.** .... (liquid), that is to say they are able to convert **10.** .... (invest) into cash, as soon as one needs to.
Bonds are simply **11.** .... (lend) made to an organisation and they are debts that appear as liabilities on the organisation's balance sheet. While stocks are **12.** .... (use) offered only by for-profit corporations, any organisation can issue bonds, which are also **13.** .... (trade) on exchanges, even if they often have a **14.** .... (low) volume of transactions than stocks.

3 Listen to the text on the reasons why stock prices change and say if these statements are true or false. Correct the false ones and explain why in your own words.

		T	F
1.	Speculators are traders who buy safe shares with little price fluctuation.	☐	☐
2.	A share price can change in a very short time span.	☐	☐
3.	A share price changes so quickly because its underlying company is rated differently by investors.	☐	☐
4.	A company's innovative marketing campaign to launch a competitive product cannot influence its stock prices.	☐	☐
5.	A company's good rating on the stock market cannot be influenced by political elections.	☐	☐
6.	Journalists' articles and gossip on companies can affect speculators.	☐	☐
7.	Press releases should not be taken into consideration by investors.	☐	☐

4 Look on the Internet for the effects and reasons why "Brexit", the British referendum to leave the EU, affected all Stock Exchanges worldwide. Discuss in class.

Culture note
The three oldest Stock Exchanges worldwide are: Antwerp Bourse 1460, Lyons Bourse 1506, and Toulouse Bourse 1549.