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# The Stock Market and the Role It Plays A review

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## Abstract

The term stock market refers to the collection of marketplaces and exchanges that facilitate the buying, selling, and issuing of shares of publicly-held corporations on a consistent basis. These types of financial transactions are executed by means of established official exchanges or over-the-counter (OTC) markets, both of which are governed by a predetermined set of norms and are used interchangeably. It is possible for a nation or a region to have more than one stock trading venue, each of which enables transactions in stocks and other types of securities. "The phrases stock market and stock exchange are sometimes used interchangeably; however, the latter term more specifically refers to a subset of the former term. When someone claims that they trade in the stock market, what they really mean is that they purchase and sell shares of companies that are listed on one (or more) of the stock exchanges that are included in the stock market as a whole. The New York Stock Exchange (NYSE), the Nasdaq Stock Market, the Better Alternative Trading System (BATS), and the Chicago Board Options Exchange are among the most important stock exchanges in the United States (CBOE). The United States stock market is composed of a number of different exchanges around the country, including some of the most important national exchanges and others. Even though it is known primarily for trading stocks and equities and is called a stock market or equity market, other financial securities such as exchange traded funds (ETF), corporate bonds, and derivatives based on stocks, commodities, and currencies are also traded in the stock markets. Although it is called a stock market or equity market, these markets also go by other names.

**Key words: stock market, currencies, Trading System etc.**

## Introduction

The term stock market refers to the collection of marketplaces and exchanges that facilitate the buying, selling, and issuing of shares of publicly-held corporations on a consistent basis. These types of financial transactions are executed by means of established official exchanges or over-the-counter (OTC) markets, both of which are governed by a predetermined set of norms and are used interchangeably. It is possible for a nation or a region to have more than one stock trading venue, each of which enables transactions in stocks and other types of securities. The phrases stock market and stock exchange are sometimes used interchangeably; however, the latter term more specifically refers to a subset of the former term. When someone claims that they trade in the stock market, what they really mean is that they purchase and sell shares of companies that are listed on one (or more) of the stock exchanges that are included in the stock market as a whole. The New York Stock Exchange (NYSE), the Nasdaq Stock Market, the Better Alternative Trading System (BATS), and the Chicago Board Options Exchange are among the most important stock exchanges in the United States (CBOE). The United States stock market is composed of a number of different exchanges around the country, including some of the most important national exchanges and others. Even though it is known primarily for trading stocks and equities and is called a stock market or equity market, other financial securities such as exchange traded funds (ETF), corporate bonds, and derivatives based on stocks, commodities, and currencies are also traded in the stock markets. Although it is called a stock market or equity market, these markets also go by other names.

**Definition**

A well-organized and controlled financial market in which various types of securities (such as bonds, notes, and shares) may be purchased and sold at prices that are determined by the competition between supply and demand. The primary functions of stock exchanges are as follows:

(1) Primary markets are those in which businesses, governments, municipalities, and other types of incorporated entities may raise money by investing the savings of investors in productive endeavours; while secondary markets are those in which individuals can invest their savings.

(2) Secondary markets are places where investors may sell their securities to other investors in exchange for cash. This helps to lower the risk associated with investing while also ensuring that the system has sufficient liquidity. Every listed company and trade participant is required to adhere to the severe regulations, listing criteria, and legislative obligations that are imposed by stock exchanges.

**How the Stock Market Works**

In a word, stock markets provide a safe and regulated environment in which market players may confidently engage in transactions involving shares and other qualified financial instruments with a level of operational risk that ranges from zero to low. The stock markets serve both as main markets and secondary markets while operating in accordance with the laws that have been established by the regulatory body.

The stock market serves as a primary market, which means that it gives corporations the opportunity to issue and sell their shares to members of the general public for the very first time via a procedure known as initial public offerings (IPO). The participation of investors in this endeavour is beneficial to the firms that participate. It simply implies that a corporation splits itself up into a certain number of shares (for example, 20 million shares), and then sells a portion of those shares to the general public for a price (for example, $10 per share).

A corporation has to provide a marketplace where these shares may be sold in order to make this process easier for its customers. The stock market is responsible for facilitating this marketplace. If all goes according to plan, the corporation will be able to successfully sell 5 million shares at a price of $10 per share, bringing in a total of $50 million in revenue from the sale of these shares. Investors will get company shares, which they should plan to keep for the time period of their choice in the expectation that the share price will continue to rise and that they will receive any prospective income in the form of dividend payments. The firm and its financial partners pay the stock exchange a fee in return for the services that it provides throughout the process of raising money. The stock exchange functions as a facilitator for this process.

After the initial public offering (IPO) procedure that is also known as the listing process, the stock exchange then acts as the trading platform that enables the regular buying and selling of the listed shares. This makes it possible for investors to make profit. The term secondary market refers to this particular market. The stock exchange receives a commission for each and every deal that takes place on its platform throughout the activity of the secondary market.

When dealing with such trading operations, it is the obligation of the stock exchange to ensure that there is price transparency, sufficient liquidity, accurate price discovery, and fair transactions. Trading systems are maintained by the exchange to ensure they can effectively handle the buy and sell orders sent by different market players. This is made possible by the fact that practically all major stock exchanges across the world are now operating electronically. They are responsible for carrying out the role of price matching in order to allow the execution of trades at prices that are equitable to both buyers and sellers.

A listed firm may also sell fresh, extra shares via further offerings at a later time, such as through a rights issue or through follow-on offers. Both of these types of offerings are examples of later-stage offerings. They may even decide to buy back their shares or delist them. These kinds of trades are made easier by the stock market.

The stock exchange will often generate and keep track of a variety of market-level and sector-specific indicators. These indicators, such as the S&P 500 index or the Nasdaq 100 index, give a gauge to follow the movement of the whole market.

Additionally, stock exchanges keep track of all corporate news, announcements, and financial reporting, which can often be found on the official websites of the stock exchanges themselves.

A stock exchange also provides assistance for a variety of other corporate-level operations that are transaction-related. For instance, successful businesses may choose to show appreciation to their shareholders by disbursing dividends, which are often deducted from a portion of the company's profits. The exchange is responsible for maintaining all of this information and may provide limited assistance with its processing.

**Functions of a Stock Market**

A stock market primarily serves the following functions:

**Fair Dealing in Securities Transactions**: The stock exchange has to make sure that all interested market players have rapid access to data for all buy and sell orders in accordance with the normal principles of demand and supply. This will assist in the pricing of securities in a fair and transparent manner. In addition to that, it has to be able to effectively match relevant buy and sell orders.

For instance, there may be three buyers who have placed orders to purchase Microsoft shares at $100, $105 and $110, and there may be four sellers who are prepared to sell Microsoft shares for $110, $112, $115 and $120. In this scenario, there are five possible outcomes. The exchange is responsible for ensuring that the best purchase and best sell prices are matched, which in this instance is at $110 for the given number of trades that are being conducted via their computer-operated and automated trading systems.

**Efficient Price Discovery**: Price discovery is the process of determining the appropriate price of a security and is typically carried out by analysing market supply and demand in addition to other factors associated with the transactions. The stock markets need to support an efficient mechanism for price discovery in order to function properly.

Take for example a software business situated in the United States that is now selling at a price of $100 per share and has a market capitalization of $5 billion. An article in the press reports that the EU authority has levied a punishment of $2 billion on the firm. This effectively indicates that forty percent of the company's worth may be wiped away as a result of the action. Although the stock market may have imposed a trading price range of $90 to $110 on the company's share price, it should efficiently change the permissible trading price limit to accommodate for the possible changes in the share price. If it does not do so, shareholders may find it difficult to trade at a price that is fair.

**Liquidity Maintenance**: The stock market may not be able to control the number of buyers and sellers for a particular financial security, but it does have a responsibility to ensure that anyone who meets the requirements to trade and is willing to do so is granted instant access to place orders, which must then be executed at a price that is equitable.

**Security and Validity of Transactions**: In order for a market to function effectively, having a greater number of participants is necessary; however, the market itself is responsible for ensuring that all participants are verified and continue to comply with the necessary rules and regulations. This ensures that there is no room for default by any of the parties involved. In addition to this, it should make sure that all related companies that are participating in the market are required to follow the rules and operate within the legal framework that has been provided by the regulator.

**Support All Eligible Types of Participants**: A diverse group of market participants—including market makers, investors, traders, speculators, and hedgers—are responsible for the creation of a marketplace. In the stock market, each of these players fulfils a unique job and is responsible for a certain purpose. A trader, on the other hand, may enter and leave a position in a matter of seconds, while an investor would purchase stocks with the intention of keeping them for a lengthy period of time spanning a number of years. While a market maker ensures that there is enough liquidity in the market, a hedger may want to engage in derivatives trading in order to reduce the level of risk associated with investments. To guarantee that the stock market can continue to function effectively, it is essential that all participants have the ability to carry out their duties in a smooth manner and perform the tasks that are expected of them.

**Investor Protection**: The stock market caters to a very big number of small investors in addition to affluent investors and institutional investors for their respective amounts of investments in addition to serving wealthy investors and institutions. It's possible that these investors have a limited understanding of finance and aren't completely aware of the potential difficulties associated with investing in stocks and other listed assets. The stock exchange must take the required steps to safeguard these investors from suffering monetary loss and maintain the faith of its customers. These steps must be taken in order for the stock exchange to adopt the appropriate procedures.

For instance, a stock market may divide equities into a number of different divisions according to the level of risk they provide, and it would only permit restricted trading by ordinary investors in high-risk stocks or none at all. The use of derivatives, which Warren Buffett has referred to as financial weapons of mass destruction, is not for everyone because of the high risk of incurring losses that are far greater than the amounts wagered. Exchanges often set limits in order to discourage persons with limited incomes and levels of understanding from engaging in high-risk wagers on derivatives..

**Balanced Regulation**: Listed firms are subject to extensive regulation, and market authorities such as the Securities and Exchange Commission (SEC) of the United States keep a close eye on their business operations. In addition, stock exchanges are required to impose certain requirements, such as the prompt filing of quarterly financial reports and the immediate reporting of any relevant developments, in order to guarantee that all market participants are aware of the activities taking place within corporations. In the event that the rules are not followed, the exchanges have the right to take further disciplinary action, including the suspension of trade.

**Stock Market Participants**

There are many various kinds of participants involved in the stock market, including day traders, long-term investors, and traders who focus on very short time horizons. Although each plays a distinct part, many of the jobs are linked with one another and rely on one another for the successful operation of the market.

- **Stockbrokers,** Licensed professionals that purchase and sell stocks on investors' behalf are known as registered representatives in the United States. In other countries, these professionals may go by other names. When investors want to purchase or sell stocks, they turn to brokers, who function as middlemen between them and the stock exchanges. Brokers buy and sell stocks on investors' behalf. In order to have access to the markets, one must first open an account with a retail broker.
- **Portfolio managers are professionals who invest portfolios** or the acquisition of securities on behalf of customers. These managers make judgments on the portfolio's purchases and sales based on the recommendations given to them by analysts. Portfolio

managers are responsible for determining investment policies and making investment choices on behalf of clients of mutual fund firms, hedge funds, and pension plans respectively.

- **Investment bankers represent companies in various capacities**, firms that are currently in the process of merging with another business or going public via an initial public offering are examples of such businesses. They see to it that the process of listing is carried out in a manner that is in accordance with the regulatory standards of the stock market.
- **Custodian and depot service providers**, which are institutions that hold customers' securities for the purpose of safekeeping so as to minimise the risk of their theft or loss, also operate in sync with the exchange to transfer shares to/from the respective accounts of transacting parties based on trading that takes place on the stock market.
- **Market maker:** A market maker is a kind of broker-dealer that acts as a facilitator for the trading of shares by publishing bid and ask prices and keeping an inventory of shares. He guarantees that there is adequate liquidity in the market for a specific share (or group of shares), and he benefits from the difference between the bid price and the ask price that he quotes.

**Significance of the Stock Market**

One of the most important aspects of an economy based on free-market principles is the stock market.

It gives businesses the ability to fund their operations by selling stock shares and corporate bonds. Common investors are given the opportunity to take part in the financial successes of the firms in which they invest, to make profits via capital gains, and to make money through dividends, despite the fact that losses are also a possibility. The stock market makes an effort to provide individuals with a level playing field, despite the fact that institutional investors and professional money managers do enjoy certain advantages due to the fact that they have deeper pockets, superior knowledge, and the capacity to take on greater levels of risk.

The stock market functions as a platform through which people' savings and investments are channelized into productive investment ideas". These proposals are then traded on the market.

Capital creation and economic development are both aided over the longer run by this factor for the nation.

## Conclusion

The phrase stock market is used to describe the many trading platforms and exchanges that support the issuance and trading of stock in publicly traded companies. Different stock exchanges around the United States make up the stock market as a whole, with some of the largest national exchanges joined by others. The stock market in the United States is made up of a variety of various exchanges around the country, including some of the most major national exchanges and others. Notable stock exchanges in the United States include the New York Stock Exchange (NYSE), the Nasdaq Stock Market, BATS and the Chicago Board Options Exchange (CBOE). When companies initially issue and sell shares to the public, they do so on the stock market. The stock market acts as a neutral third party in these transactions. It guarantees honest dealings, enough liquidity, correct price discovery, and a level playing field. In order to facilitate the execution of deals at prices that are fair to both buyers and sellers, stock exchanges are tasked with the duty of price matching. Market-wide and industry-specific indicators, such as the S&P 500 index and the Nasdaq 100 index, are also monitored. A reliable price discovery system is essential to the effective operation of the stock markets. In a free market, it is the responsibility of the market to ensure that all players have been properly vetted and are following all applicable laws and regulations. This guarantees that no one will be in breach of contract. A market maker is a participant who increases market liquidity. However, a trader may enter and exit a position in a flash. For investors, buying stocks is a long-term commitment that might extend many years. The stock market attracts many different types of investors. Day traders, long-term investors, and short-term traders are all in this category. A retail broker account is a prerequisite to trading on the markets. A market maker is a broker-dealer that publishes bid and ask prices and maintains an inventory of shares in order to facilitate the trading of those shares. Securities held by custodian and depot service providers also run in tandem with the exchange.

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