

Course: BBA Part II

Paper: X

Topic: Functions of Stock Exchange

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A stock exchange, securities exchange, or bourse is a facility where stockbrokers and traders can buy and sell securities, such as shares of stock and bonds and other financial instruments. Stock exchanges may also provide facilities for the issue and redemption of such securities and instruments and capital events including the payment of income and dividends. Securities traded on a stock exchange include stock issued by listed companies, unit trusts, derivatives, pooled investment products and bonds. Stock exchanges often function as "continuous auction" markets with buyers and sellers consummating transactions via open outcry at a central location such as the floor of the exchange or by using an electronic trading platform.

## Functions of Stock Exchange

### *1. Economic Barometer:*

A stock exchange is a reliable barometer to measure the economic condition of a country.

Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.

### *2. Pricing of Securities:*

The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is useful for investors, government and creditors.

The investors can know the value of their investment, the creditors can value the creditworthiness and government can impose taxes on value of securities.

### *3. Safety of Transactions:*

In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the soundness of company. The companies which are listed they also have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.

### *4. Contributes to Economic Growth:*

In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth.

### *5. Spreading of Equity Cult:*

Stock exchange encourages people to invest in ownership securities by regulating new issues, better trading practices and by educating public about investment.

### *6. Providing Scope for Speculation:*

To ensure liquidity and demand of supply of securities the stock exchange permits healthy speculation of securities.

### *7. Liquidity:*

The main function of stock market is to provide ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want. The investors can invest in long term investment projects without any hesitation, as because of stock exchange they can convert long term investment into short term and medium term.

### *8. Better Allocation of Capital:*

The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The general public hesitates to

invest in securities of loss making companies. So stock exchange facilitates allocation of investor's fund to profitable channels.

*9. Promotes the Habits of Savings and Investment:*

The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.