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The stock exchange

1. Overview of the stock exchange

A stock exchange is an organised marketplace, licensed by a relevant regulatory body, where ownership stakes (shares) in companies are listed and traded. Listing happens in the so-called 'primary market', where a portion of a company's shares are made available to the public. The company often uses the listing to raise funds through issuing new equity shares (an initial public offering or IPO). Investors can then buy and sell these listed shares in the so-called 'secondary market'. While listing in the primary market may result in a flow of funds from investors to the firm, the trading between investors in the secondary market does not.

The activity in both the primary and secondary market occurs within a framework of laws, rules and regulations, aimed at ensuring the existence of fair, transparent and orderly markets. To achieve these objectives, these rules and regulations will typically provide for the protection of investor assets, the process for transferring ownership of shares, the requirements with which companies that are listed on markets must comply, and processes for ensuring settlement of disputes. Exchanges also ensure that trading occurs according to predefined, public rules and that information about the prices at which investors are willing to buy and sell, and the prices at which instruments have sold (pre- and post-trade transparency) are publicly available.

Definition of Stock Exchange: Under Sec.2(3) of the securities contract (Regulations) Act of 1956 as "anybody of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities".

2. Fonctions of Stock Exchanges :

1. Facilitate liquidity and marketability of outstanding debt and equity instruments.
2. Contribute to economic growth through allocation/mobilization of funds to the most efficient channel through disinvestments and reinvestment.
3. To provide instant valuation of securities caused by changes in internal environment.
4. Facilitate measurement of cost of capital and rate of returns of economic entities at micro level.
5. To ensure a measure of safety and fair dealing to protect investors interest.
6. To induce companies to improve performance since market price at stock exchanges reflects the performance. So, companies/ corporates strive to improve their performance.

3. *International Stock Markets*

Newspaper and media headlines are full of news about international stock markets. As they say: the world has become globalized where the news is spread between its parties easily and simply. The most important news to be published about these markets is the performance indexes which we will define its concept then review some of the international and regional indexes as the following:

3-1 Stock Market Index

A number that summarizes the price movement of all stocks listed in a market and usually represents the average of those prices. Stocks are not equal in their percentage representation of the index. Representing a company's stock depends on its weight in the market measured by the market value of the company divided by the market value of all listed companies in the market. Stock prices rise and fall due to supply and demand. When the demand for some corporate stock exceeds the supply, the price of this stock rises and subsequently the market index increases with the percentage represented by this stock in the index.

3-2 The Importance of the Index:

The stock market index reflects the condition of the national economy in general and the economic performance of listed companies in the market in particular. If the demand for the companies' production increased due to the economic boost, then the sales and earnings of these companies are expected to increase as well as their dividends to shareholders, which in turn pushes the prices of their stocks up and the whole market index. In this case, the market index turns green. However, if the performance in the market declines, the indicator changes its color to red.

3-3 Some of the Global Indexes:

Global financial markets have two types of indexes: General indexes that measure the market situation in general, and sector indexes that measure the market situation according to a particular sector such as banking, industrial, agricultural, communications and other sectors. In the following points we address the most important international and regional indexes.

*3-3-1 **U.S. Market Indexes:***

- ***DOW Jones:*** is a major index that consists of four sub-indexes and the most famous of which is the Dow Jones Industrial Average. The value of the index is calculated based on the stocks of the thirty largest industrial companies in the United States of America.
- ***Standard and Poor's 500 (S&P 500):*** It comprises the stocks of the leading five hundred companies in several areas, including: manufacturing, transportation, utilities, money, banking, insurance, technology and services. These companies represent approximately 80% of the market value of shares traded on the New York Stock Exchange.
- *NASDAQ:* is the largest among all U.S. indexes. It contains the stocks of 3,200 companies, mostly technological.

3-3-2 European Market Indexes :

- ***United Kingdom :***

Financial Times 100: (FT-100) this index includes the 100 most important UK companies' stocks in the London market, representing 70% of the total capital of registered companies.

- ***France***
- **CAC 40:** this index includes the stocks of the forty most important French companies in Paris market.
- ***Germany***
- **DAX:** this index contains the stocks of the 30 most significant companies, representing 70% of the market value of the companies registered in Frankfurt market.