Article Side

Functions of Stock Exchange

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Stock Exchange is the name of the market where instead of goods and services, stocks and shares are traded. Investors can sell or purchase shares, bonds or securities of different companies and corporate bodies. More often these purchases and sales are made through agent or brokers. Stock Exchange market has now became very necessary and important clement of every economy. They serve a vital purpose of accumulation of savings and their availability for productive purposes. In fact the rise of joint stock companies and corporate bodies and the sustained performances would have been impossible in the absence of stock exchange.

Stock exchange is an important element of every economy. It performs many vital functions for steady growth and continuous development of the economy. Some of the important functions of stock exchange are explained below.

(1) Determination of Share Price: The most important function of stock exchange is the determination of share prices for everyday trading. The prices are affected by the forces of demand and supply. Stock exchange is the place where these forces meet each other to establish price of a share. This price then shows the strength of a company in the market.

(2) Development of Capital Market: Stock exchange is the basis of development of capital market. As you know that capital market has two segment i.e., non-securities market and securities market. Stock exchange is a developed form of this securities market. Active stock exchange helps in better growth of capital market. It also provides a medium in which different instruments of capital market can be easily traded.

(3) Â Generation of Savings: Stock market induces people to save. It teaches them to save and then to invest savings in right direction. By providing a profitable way of using savings, stock markets increase potential of savings in the economy. Higher savings potentials increases the rate of capital formation in the country. It also helps in the expansion of economy in the long run.

(4) Mobilization of Resources: Stock exchange serves the vital function of resource mobilization. Not only it attracts savings from all classes of society but it also channel these savings in different sectors. So it turn savings into investment. These investments are then used to extract and allocate more and more resources of all kind. Efficient mobilization of resources lead to increase in production and improvement of living standards.

(5) Strengthening Industrial Base: Stock exchange strengthen the industrial base of the country. You are very well aware that industry needs a huge amount of capital. This need is mainly fulfilled by stock exchange. It provides an easy medium by which investment of any amount can be made. The growth of joint stock companies is also possible because of stocks exchange. It is also the place where share prices are quoted and shares and stock are traded.

(6) Emergence of New Companies: Stock exchange plays an important role in emergence of new companies and industries. A company listed on the stock exchange enjoys a higher confidence of public and general investor. So it is in a better position to attract investment and to raise minimum subscription. Thus in the presence of stock exchange new projects can be started relatively easily. Stock exchange also helps in raising finance for establishing new lines of production and industrial units.

(7) Healthy Corporate Structure: Stock exchange helps in the maintenance of corporate structure of the economy. It is a source of promotion for sound and healthy companies. It has its particular set of rules and regulation which are to be abided by all the listed companies. These rules ensures fair running of the affairs of company. Also companies are required to send their interim and final reports to stock exchange where they are listed. Thus investor can get these reports from stock exchange and study affairs of desired company.

(8) Financial Stability: Stock exchange has a vital role in financial stability. Trends in stock exchange effect all major sectors of the economy. That is why the governing authorities (Security and Exchange Commission) always keep a close eye on the conditions of stock exchange. In certain cases market can be closed to save investors from loses (as happened after 11Sep. attacks on USA).

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