

B.Com. (Hons + Gen) 5th Semester

DSE2 Financial Market

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Concept, Feature and Role Of Stock Exchanges in India

Definition: It is a place where shares of public listed companies are traded. The primary market is where companies float shares to the general public in an initial public offering (IPO) to raise capital.

Description: Once new securities have been sold in the primary market, they are traded in the secondary market—where one investor buys shares from another investor at the prevailing market price or at whatever price both the buyer and seller agree upon. The secondary market or the stock exchanges are regulated by the regulatory authority. In India, the secondary and primary markets are governed by the Security and Exchange Board of India (SEBI).

Features of Stock Exchange:

Salient features of stock exchange are the following:

- (i) Stock exchange is a market for second hand securities
- (ii) It is basically a market for second-hand listed securities of companies viz., shares, debentures/ bonds and government securities.

(iii) Stock exchange allows dealing only in listed securities. In fact, stock exchange maintains an official list of securities that could be purchased and sold at its floor. Unlisted securities i.e., securities which do not figure in the official list of the stock exchange; could not be dealt in the stock exchange.

(iv) Stock exchange is in organised market for dealing in securities. Activities of a stock exchange are governed by a recognised code of conduct, apart from statutory regulations.

Role of the Stock Exchange (or Functions of the Stock Exchange):

Role of the stock exchange could be highlighted with reference to the following functions performed by it, in the economy of a nation:

(i) Ready Market:

Stock exchange is a convenient meeting place for buyers and sellers of second-hand securities. Investors who have a preference for liquidity (i.e. cash) can sell their securities; and those who wish to invest in securities can buy the same. Since stock exchange ensures liquidity of investment; people are induced to buy securities.

(ii) Safe Market:

Stock exchange is, perhaps, the safest market for having transactions in securities. A stock exchange functions according to code of conduct and is subject to strict statutory regulations. Since the establishment

of SEBI in the year 1988 dealings in securities in stock exchanges have become further safer.

(iii) Evaluation of Securities: Stock exchange determines prices of various securities (in terms of their real worth) through the interplay of demand and supply forces. Prices at which transactions in securities take place are recorded and published, in the form of market quotations.

(iv) Agency of Capital Formation:

Stock exchange is an agency of capital formation. It draws the savings of the man in the street into productive investment channels. Since stock exchange provides a safe and convenient market for liquidity and investment purposes; people are induced to save and invest in securities.

Through stock exchange, savings of people which otherwise would have gone into destructive channels, are routed into productive channels.

(v) Qualitative Industrial and Commercial Development:

Stock exchange aids in the process of ensuring qualitative industrial and commercial development of the economy. This is so, because, through stock exchange people keep shifting their investment from inefficient companies (which do not pay good dividends) to efficient

companies (which promise high returns on investment). This shifting process of investment is specially important for a country where savings are scarce.

(vi) Acting as a Barometer of the Company:

(Barometer is something that shows the changes that are happening in an economic, social or political situation). Stock exchange is sensitive to economic, political and social conditions of the economy; as such conditions affect the prices of securities.

In fact, price trends at stock exchange reflect the economic climate of the country. **“Stock exchanges are not merely the chief theatres of business transactions; they are also barometers which indicate the general conditions of the atmosphere of business in a country.”**- Alfred Marshall

(vii) Control Over Company Managements:

Stock exchange very directly exercises control over the managements of companies, whose securities are listed with it. In fact, those companies whose securities are listed with a stock exchange have to abide by the rules and regulations of the stock exchange.

(viii) Storehouse of Business Information:

Companies, whose securities are listed with the stock exchange, are required to furnish financial statements, annual reports and other reports to the stock exchange. Many stock exchanges publish

directories which provide data on the corporate sector. Such information is highly helpful to the government in economic planning. It is equally useful to managements of many business enterprises.