Stock Exchange

Stock Exchange, market for the sale and purchase of securities of corporations and municipalities, and, in some cases, of certificates representing commodities of trade. The stock exchange plays an important role in a capitalistic economy (see Capitalism). Stock exchanges operate in many of the larger cities in the United States and in most of the major commercial centers throughout the world. The most important stock exchanges in the United States are the New York Stock Exchange and the American Stock Exchange, both in New York City; the Midwest Stock Exchange, in Chicago; and the Pacific Coast Stock Exchange, in San Francisco and Los Angeles.

The New York Stock Exchange and the American Stock Exchange

The New York Stock Exchange was organized in 1792. Trading is conducted in stocks and bonds. No stock may be traded on the New York Stock Exchange unless the issuing company furnishes the information required for listing. The American Stock Exchange was founded in 1908. Trading is basically similar to that on the New York Stock Exchange. In 1962 the American exchange adopted minimum standards that covered the number and market value of publicly held shares of the applicant company, number of stockholders, demonstrated earnings power, and minimum price per share. Listed companies are required to publish quarterly statements and disclose important information affecting security values.

The brokers of U.S. stock exchanges are all of one class, but many specialize in specific markets. These brokers, called specialists, assist in maintaining markets for the stocks in which they deal. Some members, called registered traders, trade largely for their own accounts; others, called commission brokers, execute the orders of their firms' customers. Stock exchanges are administered by a board of directors. Membership is obtained by buying a "seat" from a member who wishes to relinquish it or from the estate of a deceased member. A prospective member's business background is investigated before formal approval is given by the board of governors.

Buying and Selling

The business of buying and selling shares is done in an area known as the floor. Positions called posts are scattered over the floor. Each post bears the names of the stocks traded at that post. A broker who wants to buy shares of a certain stock will go to the section of the post allotted to that stock. If the prevailing price of the stock is several points away from the figure the broker is authorized to pay, an order may be left with the specialist. The specialist enters the order in a book; when the desired price is reached, the specialist buys or sells the stock according to the broker's orders and reports the transaction to the buyer and the seller. If the prevailing quotations are close to the price the broker is authorized to pay, the sale may be completed without using the specialist. The buyer and the seller make a memorandum of the transaction, which is reported to the brokerage office. An exchange employee at the post where the transaction occurs writes, on a special card, the stock symbol, the number of shares, and the price, and places the card in an optical reader. The photoelectric eye in the optical reader scans the pencil marks and transmits the information to a computer. The computer records the information and transmits the details of the transaction to electrical tickers and display devices in the United States, Canada, and Europe.

New York Stock Exchange transactions may be made in three different ways: cash, regular, or on a limited option to the seller regarding the time of delivery or acceptance. In cash transactions stock is bought, delivered, and paid for on the same day. In regular transactions the stock is bought and must be paid for and delivered by noon on the fifth day following a full business day. Seller's-option contracts may be made for delivery within any specified period not exceeding 60 days.

Over-the-Counter Securities Market

All trading that does not take place on a registered stock exchange is handled by the over-the-counter (OTC) market. In OTC trading, buyers and sellers seek each other out and negotiate the most favorable prices they can achieve. Dealers compete with each other in the purchase and sale of stocks. To disseminate information on OTC securities, an electronic communications system designed to link all OTC firms into one vast market was inaugurated in 1971. This system of communications is known as NASDAQ (National Association of Securities Dealers Automated Quotations).

See Also Finance.