Role and historical background of security markets

The securities may be in the form of any financial security such as the bonds, shares, deposits and much other financial stuff that is to be sale by the organizations and individuals in the capital markets. These securities which are sold in the capital markets are divided in to two categories as according to their financial performance such as bonds and shares. There is one capital market which covers the two markets.

A capital market is called the security market, which is the market from which many organization and government can raise the funds. These are long term funds to the organizations and government by selling the securities in these markets. The classification of capital market is:- Stock market- Bonds market- What are Securities? The securities are the negotiable instruments those who have the financial value. These securities are classified in to the debt and equity securities and these are bonds and common stock such as shares.

Bond is called the debt security. This needs the principle and interest to the issuer at the fixed date and this date is the maturity date of bond. Bonds are issued in the bonds market with the fixed terms of maturity that is ten years or more. That debt which is between one to ten years is the note and the debt which is less then one year is the bill that have very short maturity period. These bonds are available simple in the form of loan but they needs to be repaid to the issuer at the fixed time and date of maturity, but these needs to be repay at the fixed maturity period and not after that.

These bonds helps the individuals or issuers to make investments in the long term projects and raise the long term finance from the bonds markets. Bonds are generally issued to the public for long term payments and notes to the limited number of investors. Those companies that are issuing the securities to individuals that are going to sell the securities in the security markets are called issuers. Common stocks are also traded in the securities markets.

This common stock is the part of ordinary shares that the company holds. There are two types of shares hold by the organizations. Some are the public shares which are known as preferred stocks and the company shares as known as the common stock. The common stock which is repurchased by the corporations is called the treasury stocks. So there are two types of stocks:- Preferred stock- Common stock (Chamberlain, et.

al, 1991)- Formation of Securities Exchange CommissionIt is the commission for the regulation of securities which was formed in 1934. It is the commission that is considered as the principle in regulation of securities in the security markets of United States. Before 1929, each country had their own security activities and they had no such specific body to regulate the security activities. After the stock market crashed in 1929, it brought the great depression in the economies needs the perfect body for the regulation of securities in the security markets.

The securities act that was formed in 1933 was for the cooperation with the small investors to prohibit the fraudulent practices in the stock markets and save the small investments in these markets, that act was also to read the financial reports of the security markets. This commission after its formation made some of the rules that are now still following in the security markets of many countries. These rules regarding the securities needed that the companies stocks bonds and another financial instruments such as shares must need the registration that are going to sell by them to the public." The SEC determines whether these disclosures are full and fair so that investors can make well-informed and realistic evaluations of various securities.

The SEC also oversees trading in stocks and administers rules designed to prevent price manipulation; to that end, brokers and dealers in the over-the-counter market and the stock exchanges must register with the SEC. In addition, the commission requires companies to tell the public when their own officers buy or sell shares of their stock; the commission believes that these " insiders" possess intimate information about their companies and that their trades can indicate to other investors their degree of confidence in their companies' future". (Cunningham, et. al, 1979)The Security Exchange Commission has the agents for covering the information on different security markets and individuals or organizations that are going to be public, those information that are hidden from public needs to be disclose over the public before the sale of any type of security in to the markets. These not only make necessary rules and regulations for the existing security markets but also this commission is making much consideration on the future markets establishment and fulfillment of all needs and changes in the future markets. This Securities and Exchange Commission formation is just to save the small and the large investors from frauds and other misappropriations that may arise some times in the capital markets and small investors would be the biggest victims of such effects.

(Duncan, 1975)Origination of Stock MarketsIn the eleventh century, the Muslims and the Jewish merchants have the setup that comprises of trade and the methods used in trading. They have the good knowledge of every type of financial transactions they knew about each and every method of credit and payments in the twelfth century. In France courratiers de change was concerned with the management and regulation of rules regarding the agricultural communities that was on behalf of the financial institutions because at that time there were no such technological and modern financial institutions to regulate the funds. So these were the men that first started trade with debt so they are called the first brokers who brought the concept of selling of debt equities such as bonds today. After that many changes and development was made in the concept of trading in the thirteenth century.

Bruges who was the commodity traders formed the Bruges Beurse by these changes in the trading activities. The concept got famous in many other countries of the world and they also started doing work on the development of trading of securities and regulation of funds in the mid of thirteenth century. Venetian bankers started the selling and trading of government securities and after that the trading of government securities and the development of rules regarding the prices of the government securities made. The bankers in Pisa Verona Genoa Florence all started the trading of government securities and with these developments in the past Dutch brings the idea of joint stock companies with them and that formation of joint stock company led the formation and participation of shares in the business ventures that provided the idea of making investments in business as the common stock of the company. In the year 1602, Dutch issued the first share in Amsterdam stock exchange and made the significant mark of creating the first share to be enlisted at the stock exchange.

The company was Dutch East India Company. (Kolb, et. al, 1987)First Stock Exchange FormationThe Amsterdam Stock Exchange is called the first stock exchange in the world. The name of Amsterdam belongs to the name of place from which it originated. After that in 2000, it got merged with the Brussels Stock Exchange and the Paris Stock Exchange and they form the Euro Next and now this stock exchange is famous as Euro Next Amsterdam.

Stock Markets“ A stock market is the market for the trading of common stock and the derivatives of common stocks”. These common stocks are the shares of different organizations. These securities are listed on the stock exchanges. The stock markets deals with the trading of the company’s stocks. “ There are also some other types of securities that are to be traded in these stock markets. There are different types of participants in the stock markets.

These may vary from the small investors to the large organizations. There are some of the stock exchanges where the exchange transactions are to be carried out on an open floor and the method of trading is called open cry method”. These types of methods generally followed in some of the stock exchanges and the commodity exchange markets where the bidding is made fore the securities that are on trading. There is also some of the other stock exchange that comprises of the computer systems such as the stock exchanges of developed countries that comprises of the full computerized systems and there are no such open cry methods to be followed for trading the securities. (Koretz and Gene, 1994)The trade in these countries stock exchanges is made through computer systems and not by bidding at one particular place in the market. There is the bidding system for the trading of securities in many markets.

This is called the auction trade and in this method of trading many individuals or they are called brokers, who start bidding for the trade of security and sets the specific price of the stock. (Koretz and Gene, 1994)So when the bid and ask price matches then the sale of stock takes place. In these exchanges the sale of securities is based on the principle of first come, first served basis. The main objective of formation of stock exchanges in every state is to facilitate the buyers and sellers to exchange and sale the securities to one another. These stock exchanges provides them the market place for such exchanges so the prices of each stock can be easily determined at these stock exchanges and it is also serve as the easy way of meeting the buyers for sellers and sellers for buyers, thus made easy the financial transactions.

The New York Stock Exchange is the market place where the trading of stock takes place by means of face to face transactions at the open floor. This type of exchange is called the listed exchange . the first stock exchange was formed in America that is the New York Stock Exchange and after the event of 1929 there were many changes made to the formation of stock markets and the security and exchange commission was formed to prevent the stock markets from great depressions." The year was 1790. The place was Philadelphia.

The occasion was the founding of the first stock exchange in America. Two years later a group of New York merchants met to discuss how to take command of the securities business. The merchants, a group of 24 men, founded what is now known as the New York Stock Exchange. But in early 1817, the merchant group from New York, distressed at the sorry state of their stock exchange, sent a representative to Philadelphia to observe how things were being done.

Upon arriving with news about the robust exchange in Philadelphia, the New York Stock and Exchange Board were soon formally organized”. (Howarth and Hoffman, 1984)Stock Market ParticipantsFor many years, the stock market participants are classified in to buyers and sellers who were the individual investor’s world wide. These individuals belonged to the rich category of people and they are generally called the large business mans. After the information technology introduction to the markets and the market widening with the large number of investors, increase in population and increase in income lead to the increase of market size which lead to increase the size of stock markets, when the businesses world wide increase and trade activities went faster. When many changes took place in the markets, these markets became more technological and industrialized comprises of so many participants that are from various enterprises and the individual participants.

So after the changes made in the early years because of industrialization, the large number of stock markets participants were changes from the individual businessmen to the large business organizations and institutions. With the increase in large number of investments made in the markets the size of financial markets also increased and the markets operations are now not limited to the small organizations or some of the individuals. These operations are now conducted by many large organizations and individual businessmen. (Persinger, 1975)Formation of Stock MarketsStock markets are now playing a large role in the profits of different organizations and financial institutions of the countries. These stock exchanges presence ensure the benefits of large and small investors and save them from many disasters and losses in businesses. These are the markets that are considered as the place where many organizations get help to raise the funds.

These stock markets help the organizations to be public and to raise the huge funds which they invest in many of the projects. These stock exchanges provide the high liquidity opportunity by which the organizations and companies can easily sell their securities in these markets. So these are the markets that have the efficient liquidity as compare to the real estate where there is less liquidity exists. Because of prices of shares and other assets related with the financial transactions of the organizations are utmost important in the economic development and the raise the economic activities, by raising the economic activities and financial activities between the public and the private investors made more strong the social status of the country. For example, the prices of shares of any company increases.

This leads in the increase of the business activities of the company and these share prices also benefits the economic activities in the country by affecting the house holds and their consumption. So many countries have strong financial institutes to regulate the stock markets activities. These exchanges in the stock markets leads to the exchange of securities like as a clearing house to collect the securities and sell them to the other buyers. Public, generally wants to invest in the stock markets directly or with the means of mutual funds in many countries these shares selling and buying in the stock markets are responsible for making large number of changes with in the house holds of that country. (Pettengill, 1993)“ With each passing year, the noise level in the stock market rises.

Television commentators, financial writers, analysts, and market strategists are all over taking each other to get investors’ attention. At the same time, individual investors, immersed in chat rooms and message boards, are exchanging questionable and often misleading tips. Yet, despite all this available information, investors find it increasingly difficult to profit. Stock prices skyrocket with little reason, then plummet just as quickly, and people who have turned to investing for their children’s education and their own retirement become frightened.

Sometimes there appears to be no rhyme or reason to the market, only folly”. (Pettengill, 1993)Now the stock market comprises of three lac (300, 000) computer network systems. These computers are networked together and they share the prices as according to the provided information’s. These are linked with the world’s stock exchanges by the network of twenty six million computers.

These computers displays the data related with the financial transactions of the different countries world wide. (Saunders and Edward, 1993)