Economics Class 25

SHARES AND DEBENTURES (09:03 AM)

- The capital of a company is divided into shares and each share forms a unit of ownership of a company and is offered for sale to raise capital for the company.
- **Shares can be divided into two broad categories:**
- **1. Equity share**
- Equity shareholders have voting rights in the annual general meeting of the company.
- The shareholders have a share in the profit and also bear losses incurred by the company.
- Equity shareholders do not have assured dividends.
- **2. Preference shares-** (issues for company's director, employees etc.)
- Preference shareholders receive a fixed amount of dividends and they do not have voting rights.
- Preference shareholders are given a preference over the equity shareholders during the settlement of the company.
- **DEBENTURES**
- These are debt instruments with a fixed rate of interest and the debentures issued by the company are generally unsecured.
- Debenture holders do not have voting rights, unlike equity shareholders.
- There are different **types of debentures:**
- 1. Convertible debenture- can be converted into shares after a particular period of time.
- 2. Non-convertible- cannot be converted into a share.

- **STOCK EXCHANGE**
- Stock exchange is a platform where buyers and sellers trade securities such as shares, bonds, derivatives, etc. Such trade takes place through an electronic means.
- The price of a security is affected by the demand and supply of the security. It may be noted that such security for being traded must be listed' in that stock exchange.
- India now follows the T+2 (trading plus two days) settlement cycle. Presently, India's leading stock exchanges are the two:
- **Bombay Stock Exchange**
- It is the oldest stock exchange in Asia and is also known as the Stock Exchange of Mumbai, established in 1875, which, at that time, was called the Native Share and Stock Brokers Association. Trading is done in equity, currencies, debt instruments, derivatives and mutual funds.
- BSE also established India INX, India's first international stock exchange in GIFT City, Ahmedabad.
- SENSEX is the popular index of BSE.
- **National Stock Exchange**
- It was set up in 1992 and was India's first fully automated electronic exchange with a nationwide presence.
- It is also India's first dematerialised (non-paper) stock exchange. NSE is the largest exchange in the country in terms of trading volumes. The Headquarters of NSE is located in Mumbai.
- **Please refer to the handout for more details.**

TECHNICAL TERMS (10:17 AM)

- **Speculation-**
- It is the act of buying or selling stocks based on the expectation of future price movements.
- Speculators take high risks in exchange for the possibility of high rewards.
- Speculators may use various strategies and techniques to predict and profit from market fluctuations, such as technical analysis, trend following, etc.
- **Insider trading-**
- Insider trading is the trading of a public company's stock or other securities based on information about the company that is not openly available in the public domain.
- This information gives the insider an unfair advantage over other investors.
- **Spot market-** Transactions are made at current price/ prevailing prices.
- **Forward Market-** Contracts are made to buy/ sell a commodity or security at a predetermined rate and date in future.
- **Global Depository Receipts**
- Indian companies to raise equity capital in the international market.
- Designated in Foreign currency.
- **Participatory notes**
- Offshore derivative instruments.
- A high degree of anonymity.

DERIVATIVES (10:45 AM)

- Derivative trading refers to transactions of the contracts of the forward market.
- **Types of derivatives:**
- **Forward-** It is an agreement or contract between two parties to buy or sell a particular security at a predetermined rate and date in future.
- In the example of contract farming, the farmer decides to sell 5000 kgs of Onion at the rate of 10 rs/kg after 6 months to a company like ITC.
- In this case, there is a guaranteed market for farmers along with price hedging for both parties. Quality and productivity also increase along with guaranteed income for the farmer.
- Forward contracts are not traded on the stock exchanges i.e. they are over-the-counter derivatives.
- They are unregulated and are traded over the counter.
- They can be customized as per the needs of the parties involved.
- **Future-** It is similar to forwards but not bilateral.
- Futures are exchange-traded standardised contracts to buy or sell a commodity or security at a predetermined rate and date in future.
- They are traded in commodity exchanges like MCX, NMCE etc.
- Future transactions help in hedging, and speculation and also reduce price fluctuations in the spot market.

THE TOPIC OF THE NEXT CLASS- DISCUSSION ON FINANCIAL INSTRUMENTS (TO CONTINUE)