Stock market

A **stock market**, **equity market**, or **share market** is the aggregation of buyers and sellers of [stocks](https://en.wikipedia.org/wiki/Stock) (also called shares), which represent [ownership](https://en.wikipedia.org/wiki/Ownership) claims on businesses; these may include *securities* listed on a public [stock exchange](https://en.wikipedia.org/wiki/Stock_exchange) as well as stock that is only traded privately, such as shares of private companies that are sold to [investors](https://en.wikipedia.org/wiki/Investor) through [equity crowdfunding](https://en.wikipedia.org/wiki/Equity_crowdfunding) platforms. Investments are usually made with an [investment strategy](https://en.wikipedia.org/wiki/Investment_strategy) in mind.

**Size of the market**

The total [market capitalization](https://en.wikipedia.org/wiki/Market_capitalization) of all publicly traded stocks worldwide rose from [US$](https://en.wikipedia.org/wiki/United_States_dollar)2.5 trillion in 1980 to US$111 trillion by the end of 2023.[[1]](https://en.wikipedia.org/wiki/Stock_market#cite_note-worldbank-1)

As of 2016, there are 60 stock exchanges in the world. Of these, there are 16 exchanges with a [market capitalization](https://en.wikipedia.org/wiki/Market_capitalization) of $1 trillion or more, and they account for 87% of [global market](https://en.wikipedia.org/wiki/Global_market) capitalization. Apart from the [Australian Securities Exchange](https://en.wikipedia.org/wiki/Australian_Securities_Exchange), these 16 exchanges are all in [North America](https://en.wikipedia.org/wiki/North_America), [Europe](https://en.wikipedia.org/wiki/Europe), or [Asia](https://en.wikipedia.org/wiki/Asia).[[2]](https://en.wikipedia.org/wiki/Stock_market#cite_note-2)

By country, the largest stock markets as of January 2022 are in the United States of America (about 59.9%), followed by Japan (about 6.2%) and United Kingdom (about 3.9%).[[3]](https://en.wikipedia.org/wiki/Stock_market#cite_note-3)

**Stock exchange**

*Main article:*[*Stock exchange*](https://en.wikipedia.org/wiki/Stock_exchange)

[A group of people sitting at desks in a courtroom

Description automatically generated](https://en.wikipedia.org/wiki/File:Helsingin-porssi-1965.jpg)Interior hall of the [Helsinki Stock Exchange](https://en.wikipedia.org/wiki/Nasdaq_Helsinki) in [Helsinki, Finland](https://en.wikipedia.org/wiki/Helsinki), 1965

A [stock exchange](https://en.wikipedia.org/wiki/Stock_exchange) is an [exchange](https://en.wikipedia.org/wiki/Exchange_(organized_market)) (or bourse) where [stockbrokers](https://en.wikipedia.org/wiki/Stockbroker) and [traders](https://en.wikipedia.org/wiki/Stock_trader) can buy and sell [shares](https://en.wikipedia.org/wiki/Share_(finance)) (equity [stock](https://en.wikipedia.org/wiki/Stock)), [bonds](https://en.wikipedia.org/wiki/Bond_(finance)), and other [securities](https://en.wikipedia.org/wiki/Security_(finance)). Many [large companies](https://en.wikipedia.org/wiki/List_of_largest_companies_by_revenue) have their stocks listed on a stock exchange. This makes the stock more liquid and thus more attractive to many investors. The exchange may also act as a guarantor of settlement. These and other stocks may also be traded "[over the counter](https://en.wikipedia.org/wiki/Over-the-counter_(finance))" (OTC), that is, through a dealer. Some large companies will have their stock listed on more than one exchange in different countries, so as to attract international investors.[[4]](https://en.wikipedia.org/wiki/Stock_market#cite_note-4)

Stock exchanges may also cover other types of securities, such as fixed-interest securities (bonds) or (less frequently) derivatives, which are more likely to be traded OTC.

Trade in stock markets means the transfer (in exchange for money) of a stock or security from a seller to a buyer. This requires these two parties to agree on a price. [Equities](https://en.wikipedia.org/wiki/Equity_(finance)) (stocks or shares) confer an ownership interest in a particular company.

Participants in the stock market range from small individual [stock investors](https://en.wikipedia.org/wiki/Stock_investors) to larger investors, who can be based anywhere in the world, and may include [banks](https://en.wikipedia.org/wiki/Bank), [insurance](https://en.wikipedia.org/wiki/Insurance) companies, [pension funds](https://en.wikipedia.org/wiki/Pension_fund) and [hedge funds](https://en.wikipedia.org/wiki/Hedge_fund). Their buy or sell orders may be executed on their behalf by a stock exchange [trader](https://en.wikipedia.org/wiki/Trader_(finance)).

Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as [open outcry](https://en.wikipedia.org/wiki/Open_outcry). This method is used in some stock exchanges and [commodities exchanges](https://en.wikipedia.org/wiki/Commodities_exchange), and involves traders shouting bid and offer prices. The other type of stock exchange has a network of computers where trades are made electronically. An example of such an exchange is the [NASDAQ](https://en.wikipedia.org/wiki/NASDAQ).

A potential buyer *bids* a specific price for a stock, and a potential seller *asks* a specific price for the same stock. Buying or selling *at the*[*Market*](https://en.wikipedia.org/wiki/Market_(economics)) means you will accept *any* ask price or bid price for the stock. When the bid and ask prices match, a sale takes place, on a first-come, first-served basis if there are multiple bidders at a given price.

The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a [marketplace](https://en.wikipedia.org/wiki/Marketplace). The exchanges provide real-time trading information on the listed securities, facilitating [price discovery](https://en.wikipedia.org/wiki/Price_discovery).

The [New York Stock Exchange](https://en.wikipedia.org/wiki/New_York_Stock_Exchange) (NYSE) is a physical exchange, with a [hybrid market](https://en.wikipedia.org/wiki/Hybrid_market) for placing orders electronically from any location as well as on the [trading floor](https://en.wikipedia.org/wiki/Trading_floor). Orders executed on the trading floor enter by way of exchange members and flow down to a [floor broker](https://en.wikipedia.org/wiki/Floor_broker), who submits the order electronically to the floor trading post for the Designated [market maker](https://en.wikipedia.org/wiki/Market_maker) ("DMM") for that stock to trade the order. The DMM's job is to maintain a two-sided market, making orders to buy and sell the security when there are no other buyers or sellers. If a [bid–ask spread](https://en.wikipedia.org/wiki/Bid%E2%80%93ask_spread) exists, no trade immediately takes place – in this case, the DMM may use their own resources (money or stock) to close the difference. Once a trade has been made, the details are reported on the "tape" and sent back to the brokerage firm, which then notifies the investor who placed the order. Computers play an important role, especially for [program trading](https://en.wikipedia.org/wiki/Program_trading).

The [NASDAQ](https://en.wikipedia.org/wiki/NASDAQ) is an electronic exchange, where all of the trading is done over a [computer network](https://en.wikipedia.org/wiki/Computer_network). The process is similar to the New York Stock Exchange. One or more NASDAQ [market makers](https://en.wikipedia.org/wiki/Market_maker) will always provide a bid and ask the price at which they will always purchase or sell 'their' stock.

The [Paris Bourse](https://en.wikipedia.org/wiki/Paris_Bourse), now part of [Euronext](https://en.wikipedia.org/wiki/Euronext), is an order-driven, electronic stock exchange. It was automated in the late 1980s. Prior to the 1980s, it consisted of an open outcry exchange. [Stockbrokers](https://en.wikipedia.org/wiki/Stockbroker) met on the trading floor of the Palais Brongniart. In 1986, the [CATS trading system](https://en.wikipedia.org/wiki/CATS_(trading_system)) was introduced, and the [order matching system](https://en.wikipedia.org/wiki/Order_matching_system) was fully automated.

People trading stock will prefer to trade on the most [popular exchange](https://en.wikipedia.org/wiki/List_of_stock_exchanges) since this gives the largest number of potential counter parties (buyers for a seller, sellers for a buyer) and probably the best price. However, there have always been alternatives such as brokers trying to bring parties together to trade outside the exchange. Some third markets that were popular are [Instinet](https://en.wikipedia.org/wiki/Instinet), and later Island and Archipelago (the latter two have since been acquired by Nasdaq and NYSE, respectively). One advantage is that this avoids the [commissions](https://en.wikipedia.org/wiki/Commission_(remuneration)) of the exchange. However, it also has problems such as [adverse selection](https://en.wikipedia.org/wiki/Adverse_selection).[[5]](https://en.wikipedia.org/wiki/Stock_market#cite_note-5) Financial regulators have probed [dark pools](https://en.wikipedia.org/wiki/Dark_pool).

[Market participants](https://en.wikipedia.org/wiki/Market_participant) include individual retail investors, [institutional investors](https://en.wikipedia.org/wiki/Institutional_investor) (e.g., [pension funds](https://en.wikipedia.org/wiki/Pension_fund), [insurance companies](https://en.wikipedia.org/wiki/Insurance_companies), [mutual funds](https://en.wikipedia.org/wiki/Mutual_fund), [index funds](https://en.wikipedia.org/wiki/Index_fund), [exchange-traded funds](https://en.wikipedia.org/wiki/Exchange-traded_fund), [hedge funds](https://en.wikipedia.org/wiki/Hedge_fund), investor groups, banks and various other [financial institutions](https://en.wikipedia.org/wiki/Financial_institution)), and also publicly traded corporations trading in their own shares. [Robo-advisors](https://en.wikipedia.org/wiki/Robo-advisor), which automate investment for individuals are also major participants.

**Stock market participation post-2020 pandemic**

In 2021, the value of world stock markets experienced an increase of 26.5%, amounting to US$22.3 trillion. Developing economies contributed US$9.9 trillion and developed economies US$12.4 trillion. Asia and Oceania accounted for 45%, Europe had 37%, and America had 16%, while Africa had 2% of the global market.[[8]](https://en.wikipedia.org/wiki/Stock_market#cite_note-8)

**Stock market participation factors**

Factors such as high trading prices, market ratings, information about stock exchange dynamics, and financial institutions can influence individual and corporate participation in stock markets. Additionally, the appeal of stock ownership, driven by the potential for higher returns compared to other financial instruments, plays a crucial role in attracting individuals to invest in the stock market.

Regional and country-specific factors can also impact stock market participation rates. For example, in the United States, stock market participation rates vary widely across states, with regional factors potentially influencing these disparities. It is noted that individual participation costs alone cannot explain such large differences in participation rates from state to state, indicating the presence of other regional factors at play.[[9]](https://en.wikipedia.org/wiki/Stock_market#cite_note-9)

Behavioral factors are recognized as significant influences on stock market participation, as evidenced by the low participation rates observed in the Ghanaian stock market.[[10]](https://en.wikipedia.org/wiki/Stock_market#cite_note-10)

Factors such as factor endowments, geography, political stability, [liberal trade policies](https://en.wikipedia.org/wiki/Free_trade), foreign direct investment inflows, and domestic industrial capacity are also identified as important in determining participation.[[11]](https://en.wikipedia.org/wiki/Stock_market#cite_note-11)

**Demographics of market participation**

**Indirect vs. Direct Investment**

Indirect investment involves owning shares indirectly, such as via a mutual fund or an exchange traded fund. Direct investment involves direct ownership of shares.[[12]](https://en.wikipedia.org/wiki/Stock_market#cite_note-12)

Direct ownership of stock by individuals rose slightly from 17.8% in 1992 to 17.9% in 2007, with the median value of these holdings rising from $14,778 to $17,000.[[13]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:1-13)[[14]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:0-14) Indirect participation in the form of retirement accounts rose from 39.3% in 1992 to 52.6% in 2007, with the median value of these accounts more than doubling from $22,000 to $45,000 in that time.[[13]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:1-13)[[14]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:0-14) Rydqvist, Spizman, and [Strebulaev](https://en.wikipedia.org/wiki/Ilya_Strebulaev" \o "Ilya Strebulaev) attribute the differential growth in direct and indirect holdings to differences in the way each are taxed in the United States. Investments in pension funds and 401ks, the two most common vehicles of indirect participation, are taxed only when funds are withdrawn from the accounts. Conversely, the money used to directly purchase stock is subject to taxation as are any dividends or capital gains they generate for the holder. In this way, the current tax code incentivizes individuals to invest indirectly.[[15]](https://en.wikipedia.org/wiki/Stock_market#cite_note-15)

**Participation by income and wealth strata**

Rates of participation and the value of holdings differ significantly across strata of income. In the bottom quintile of income, 5.5% of households directly own stock and 10.7% hold stocks indirectly in the form of retirement accounts.[[14]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:0-14) The top decile of income has a direct participation rate of 47.5% and an indirect participation rate in the form of retirement accounts of 89.6%.[[14]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:0-14) The median value of directly owned stock in the bottom quintile of income is $4,000 and is $78,600 in the top decile of income as of 2007.[[16]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:2-16) The median value of indirectly held stock in the form of retirement accounts for the same two groups in the same year is $6,300 and $214,800 respectively.[[16]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:2-16) Since the Great Recession of 2008 households in the bottom half of the [income distribution](https://en.wikipedia.org/wiki/Income_distribution) have lessened their participation rate both directly and indirectly from 53.2% in 2007 to 48.8% in 2013, while over the same period households in the top decile of the income distribution slightly increased participation 91.7% to 92.1%.[[17]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:3-17) The mean value of direct and indirect holdings at the bottom half of the income distribution moved slightly downward from $53,800 in 2007 to $53,600 in 2013.[[17]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:3-17) In the top decile, mean value of all holdings fell from $982,000 to $969,300 in the same time.[[17]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:3-17) The mean value of all stock holdings across the entire income distribution is valued at $269,900 as of 2013.[[17]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:3-17)

**Participation by race and gender**

The racial composition of stock market ownership shows households headed by whites are nearly four and six times as likely to directly own stocks than households headed by blacks and Hispanics respectively. As of 2011 the national rate of direct participation was 19.6%, for white households the participation rate was 24.5%, for black households it was 6.4% and for Hispanic households it was 4.3%. Indirect participation in the form of 401k ownership shows a similar pattern with a national participation rate of 42.1%, a rate of 46.4% for white households, 31.7% for black households, and 25.8% for Hispanic households. Households headed by married couples participated at rates above the national averages with 25.6% participating directly and 53.4% participating indirectly through a retirement account. 14.7% of households headed by men participated in the market directly and 33.4% owned stock through a retirement account. 12.6% of female-headed households directly owned stock and 28.7% owned stock indirectly.[[14]](https://en.wikipedia.org/wiki/Stock_market#cite_note-:0-14)

**Determinants and possible explanations of stock market participation**

In a 2003 paper by Vissing-Jørgensen attempts to explain disproportionate rates of participation along wealth and income groups as a function of fixed costs associated with investing. Her research concludes that a fixed cost of $200 per year is sufficient to explain why nearly half of all U.S. households do not participate in the market.[[18]](https://en.wikipedia.org/wiki/Stock_market#cite_note-18) Participation rates have been shown to strongly correlate with education levels, promoting the hypothesis that information and transaction costs of market participation are better absorbed by more educated households. Behavioral economists Harrison Hong, Jeffrey Kubik and Jeremy Stein suggest that sociability and participation rates of communities have a statistically significant impact on an individual's decision to participate in the market. Their research indicates that social individuals living in states with higher than average participation rates are 5% more likely to participate than individuals that do not share those characteristics.[[19]](https://en.wikipedia.org/wiki/Stock_market#cite_note-19) This phenomenon also explained in cost terms. Knowledge of market functioning diffuses through communities and consequently lowers transaction costs associated with investing.

**History**

In 12th-century France, the courtiers *de change* were concerned with managing and regulating the debts of agricultural communities on behalf of the banks. Because these men also traded with debts, they could be called the first [brokers](https://en.wikipedia.org/wiki/Broker). The Italian historian Lodovico Guicciardini described how, in late 13th-century [Bruges](https://en.wikipedia.org/wiki/Bruges), commodity traders gathered outdoors at a market square containing an inn owned by a family called *Van der Beurze*, and in 1409 they became the "[Brugse Beurse](https://en.wikipedia.org/wiki/Bourse_at_Bruges" \o "Bourse at Bruges)", institutionalizing what had been, until then, an informal meeting.[[20]](https://en.wikipedia.org/wiki/Stock_market#cite_note-20) The idea quickly spread around [Flanders](https://en.wikipedia.org/wiki/Flanders) and neighboring countries and "Beurzen" soon opened in [Ghent](https://en.wikipedia.org/wiki/Ghent) and [Rotterdam](https://en.wikipedia.org/wiki/Rotterdam). International traders, and specially the Italian bankers, present in Bruges since the early 13th-century, took back the word in their countries to define the place for stock market exchange: first the Italians (Borsa), but soon also the French (Bourse), the Germans (börse), Russians (birža), Czechs (burza), Swedes (börs), Danes and Norwegians (børs). In most languages, the word coincides with that for money bag, dating back to the Latin bursa, from which obviously also derives the name of the Van der Beurse family.

In the middle of the [13th century](https://en.wikipedia.org/wiki/13th_century), [Venetian](https://en.wikipedia.org/wiki/Venice) bankers began to trade in government securities. In 1351 the Venetian government outlawed spreading rumors intended to lower the price of government funds. Bankers in [Pisa](https://en.wikipedia.org/wiki/Pisa), [Verona](https://en.wikipedia.org/wiki/Verona), [Genoa](https://en.wikipedia.org/wiki/Genoa) and [Florence](https://en.wikipedia.org/wiki/Florence) also began trading in government securities during the 14th century. This was only possible because these were independent city-states not ruled by a duke but a council of influential citizens. Italian companies were also the first to issue shares. Companies in England and the Low Countries followed in the 16th century. Around this time, a [joint stock company](https://en.wikipedia.org/wiki/Joint_stock_company)—one whose stock is owned jointly by the shareholders—emerged and became important for the colonization of what Europeans called the "[New World](https://en.wikipedia.org/wiki/New_World)".[[21]](https://en.wikipedia.org/wiki/Stock_market#cite_note-21)