**NASDAQ Writing Sample – Index**

In this short summary, I’ll be covering the very basics of what an index is, how an index works, the goal of an index and specifically the S&P ESG Index.

An index is an indicator or measure. In the scope of the financial world, an index is a measure of performance for a specific bundle of financial assets such as bonds or stocks. In the case of the [S&P 500 ESG](https://www.spindices.com/indexology/esg/the-sp-500-esg-index-integrating-environmental-social-and-governance-values-into-the-core) – this index is a measure of how the top 500 publicly traded companies, by market capitalization, are performing that have ESG values (environmental, social and governance).

It’s important to note that different indices have their own method of tracking how well a bundle of stocks are performing and especially selecting what stocks make up that bundle. However, the key for judging success is in the rate of change, or delta of the index. For example, if the S&P 500 ESG index drops 50 points from 200 to 150, the rate of change can be said that this index, or performance of this sector of stocks, decreased by 25%.

Generally, indices are calculated by taking the market capitalization, price \* outstanding shares, of each individual stock and weighing that against the total market capitalization of the entire collection of stocks. This number is then usually divided by an index divisor, which by itself is an arbitrary number but the divisor sets a base level. As prices constantly change, the index number is updated at regular intervals to track the ongoing performance of the selected bundle of stocks. This allows investors, analysts and others to easily glean performance on a specific selection of the stock market.