

Lecture 5

What is a Stock Exchange?

Stock Exchange: The stock market is a general term which is related to a place where stocks are traded. A stock exchange is more specific to the place where the trading is executed, such as ARCA, NSE, NYSE, NASDAQ and so on.

The history of the first stock exchange:

Initially if you had a stock that you wanted to sell, you would have to find a counter party that was willing to buy them from you at a price that you both agreed on. If you wanted to purchase a stock you would have to find a seller who was willing to sell it to you at a price that you both agreed on as well. This made things very complicated for buyers, sellers and traders. What people started to do was to set up meeting locations and times where groups who wanted to buy or sell stocks would meet and transact with one another.



As more participants started to join the group, the organization of this market became a bit hectic. 24 of these traders secretly signed an agreement together, on May 17, 1792, called the Buttonwood Agreement. This agreement stated that: “We the Subscribers, Brokers for the Purchase and Sale of the Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock, at a less rate than one quarter percent Commission on the Specie value and that we will give preference to each other in our Negotiations.

In Testimony whereof we have set our hands this 17th day of May at New York, 1792.”. This made these the 24 original brokers of the New York Stock exchange. If anyone wanted to buy or sell a stock he would have to go through them. On each transaction that they made for their client they would keep a commission. The same year they moved from under the tree to a coffee shop right next door. They eventually moved to the building right in front of that tree: the current building of the New York Stock Exchange.