

Market capitalization

Market capitalization (market cap) is the market value at a point in time of the shares outstanding of a publicly traded company, being equal to the share price at that point of time times the number of shares outstanding.^{[2][3]} As outstanding stock is bought and sold in public markets, capitalization could be used as an indicator of public opinion of a company's net worth and is a determining factor in some forms of stock valuation.

Market capitalization is used by the investment community in ranking the size of companies, as opposed to sales or total asset figures. It is also used in ranking the relative size of stock exchanges, being a measure of the sum of the market capitalizations of all companies listed on each stock exchange. (See List of stock exchanges.) In performing such rankings, the market capitalizations are calculated at some significant date, such as 30 June or 31 December.



The New York Stock Exchange on Wall Street, the world's largest stock exchange in terms of total market capitalization of its listed companies^[1]

The total capitalization of stock markets or economic regions may be compared to other economic indicators. The total market capitalization of all publicly traded companies in the world was US\$51.2 trillion in January 2007^[4] and rose as high as US\$57.5 trillion in May 2008^[5] before dropping below US\$50 trillion in August 2008 and slightly above US\$40 trillion in September 2008.^[5] In 2014 and 2015, global market capitalization was US\$68 trillion and US\$67 trillion, respectively.^[6]

Calculation

Market cap is given by the formula $MC = N \times P$, where MC is the market capitalization, N is the number of shares outstanding, and P is the closing price per share.

For example, if some company has 4 million shares outstanding and the closing price per share is \$20, its market cap is then \$80 million. If the closing price per share rises to \$21, the market cap becomes \$84 million. If it drops to \$19 per share, the market cap falls to \$76 million. This is in contrast to mercantile pricing where purchase price, average price and sale price may differ due to transaction costs.

Market cap terms

Traditionally, companies were divided into **large-cap**, **mid-cap**, and **small-cap**.^[2] The terms **mega-cap** and **micro-cap** have also since come into common use,^{[7][8]} and **nano-cap** is sometimes heard. Different numbers are used by different indexes;^[9] there is no official definition of, or full consensus agreement about, the exact cutoff values. The cutoffs may be defined as percentiles rather than in nominal dollars. The definitions expressed in nominal dollars need to be adjusted over decades due to inflation, population change, and overall market valuation (for example, \$1 billion was a large market cap in 1950, but it is not very large now), and market caps are likely to be different country to country.

Related measures

Market cap reflects only the *equity* value of a company. It is important to note that a firm's choice of capital structure has a significant impact on how the total value of a company is allocated between equity and debt. A more comprehensive measure is enterprise value (EV), which gives effect to outstanding debt, preferred stock, and other factors. For insurance firms, a value called the embedded value (EV) has been used.

See also

- List of finance topics
- List of corporations by market capitalization
- Market price
- Market trend
- Middle-market company
- Public float
- Shares authorized
- Treasury stock

References

- ↑ "Market highlights for first half-year 2010" (PDF). World Federation of Exchanges. Retrieved May 29, 2013.
- 1 2 "Market Capitalization Definition". Retrieved April 2, 2013.
- ↑ "Financial Times Lexicon". Retrieved February 19, 2013.
- ↑ Global stock values top \$50 trln: industry data (Reuters)
- 1 2 WFE Report Generator including report for Domestic Market Capitalization 2008 (World Federation of Exchanges)
- ↑ WFE Full Year Statistics 2015 (World Federation of Exchanges)
- ↑ "Mega Cap Definition". Retrieved April 2, 2013.
- ↑ "Micro Cap Definition". Retrieved April 2, 2013.
- ↑ Definition of Market Capitalization

External links

- How to Value Assets – from the Washington State (U.S.) government web site
- Year-end market capitalization by country – World Bank, 1988–2010
- Equity and Bond Capitalizations G20 – Equity and bond capitalization for the G20
- Comparative Explanation – Share Count: Authorized, Outstanding And Float
- Market cap filter for global public companies Free look up of current market capitalization
- Historical market caps of S&P 500 companies
- Market capitalization of listed companies (% of GDP): statistics by country



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