Need / Role/ Importance/ Significance of Stock exchanges

Stock exchanges have multiple roles in the economy, this may include the following:

1. **Corporate companies' growth:** Any company which is at its peak of plans and executions, if requires more funds than available for its expansion can gather funds directly from the public through the stock market. When any company faces such situation when it either doesn't want to approach an investor or a bank for its funding knocks the door of primary market in the stock market. Here it offers a percentage of its shares to the public. This offering is called Initial Public Offering (IPO). Public includes big institutions as well as retail investors. They invest in the business by buying the IPO at the set price. This money through a certain process goes to the company. The company gets the funding by selling a part of the ownership to the public. This helps the company to work on its plans and expand the business. An expanded business means more goods/service to the society. Thus more goods/services are made available through the stock market.

2. **Helping government:** There are times when a government wants to start a new project for the welfare of the society but can't arrange the funds for the same. The government also approaches the stock market just like companies approach. The only difference here is that instead of issuing IPO and gathering funds, a government issue bonds. Public invests in the bonds. The government gets the money for the project and the public gets an assurance of an increase on their investment in the bonds. Such projects are aimed at various developments of society thus in return improves the economy

3. **Investor growth:** After IPO is issued the stocks are available to the public in the secondary market. In this market frequent buy-sell of the stocks take place. A stock sold at a high price than the bought price brings profit and a stock sold at a low price than the bought price brings loss. This buy-sell process is the backbone of the stock market. So when traders/investors get profit from the stock market they have more money to spend and when they are at a loss they have lesser money to spend. Thus when there is a Bull Run, more money is available to the society but when Bears take charge society lives in lesser money. Here society is referred collectively to the traders/investors participating in the stock market

4. **Raising capital for businesses:** The Stock Exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.

5. **Mobilizing savings for investment:** When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in a stronger economic growth and higher productivity levels and firms.

6. **Facilitating company growth:** Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, hedge against volatility, increase its market share, or acquire other necessary business assets. A takeover bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion.

7. **Redistribution of wealth:** Stocks exchanges do not exist to redistribute wealth. However, both casual and professional stock investors, through dividends and stock price increases that may result in capital gains, will share in the wealth of profitable businesses.

8. **Corporate governance:** By having a wide and varied scope of owners, companies generally tend to improve on their management standards and efficiency in order to satisfy the demands of these shareholders and the more stringent rules for public corporations imposed by public stock exchanges and the government.

9. **Creating investment opportunities for small investors:** As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares they can afford. Therefore the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

10. **Government capital-raising for development projects:** Governments at various levels may decide to borrow money in order to finance infrastructure projects such as sewage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the Stock Exchange whereby members of the public buy them, thus loaning money to the government.

11. **Barometer of the economy:** At the stock exchange, share prices rise and fall depending, largely, on market forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An economic recession, depression, or financial crisis could eventually lead to a stock market crash. Therefore the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the economy.

12. **Summarizing:** An economy is a relation between demand-supply and availability of money in the society. Stock market directly impacts this relation in various ways viz.

    1. It helps in the growth of company leading to more supply.
    2. It helps the growth of investors leading to more demand and money availability.
    3. It helps the government to execute expensive developmental projects for better economy.
    4. It helps banks and financial institutions to earn money which leads to a better economy.
    5. It provides better saving options than the conventional ones.