The Stock Market (Finance)

In conversation, media, and the news, it's common to hear talk of "the market," short for the stock market. And while most everyone knows about the stock market, once again, few actually know what it is, how it functions, and what purposes it serves.

The stock market is the platform through which shares — or pieces of ownership of a company — are bought and sold by investors; investors who own shares of a company are referred to as shareholders. Thus, the stock exchange allows investors to potentially improve their worth (provided the stock price of their investments increases, or provided they receive dividends, or small, pre-planned payments from a company paid to shareholders), and companies to have the benefit of being publically operated, and also, for company founders to cash-in on stock (by selling their shares of the company once it goes public).

Trading shares is a relatively straightforward process. Through a licensed stockbroker, brokerage firm, or trading website, one simply places an order for the desired number of stock in a designated company; a small fee is usually paid to the party responsible for performing the trade (be it a person, firm, or website). There is always another individual looking to sell or buy a particular stock, given the magnitude of the exchange, and there are therefore almost never delays in the process. There are also a number of other, more complex stock purchase and sale types for buyers and sellers to choose from.

Anyone who owns stock in a company owns a piece of its assets relative to their share count. For example, a company with a stock limit (which is determined during an IPO, or initial public offering, wherein a company's initial price and stock count are set before it debuts on the exchange),of 100 (hypothetically speaking, of course) would be 25% owned by an individual who possessed 25 shares.

Did you understand the text?

1) What's traded on the stock market?

a) Money, from investor to investor
b) Shares, or pieces of publically traded companies
c) Property and other physical assets
d) Privately owned companies

2) How can stock be purchased by an investor?

a) Through a licensed stock-trading website
b) Through a licensed stockbroker
c) Through a licensed stock brokerage firm (as opposed to an individual broker)
d) All of the Above

3) How can each stock be bought and sold at any time; how are there so many different customers?

a) Stocks that nobody wants are sold into thin air
b) Certain stocks cannot be bought and sold at one's convenience
c) The stock exchange is a massive international platform that bases its stocks' prices on demand, and there are therefore always buyers and sellers available
d) Some companies buy their own stock back

4) What is an IPO (initial public offering)?

a) Any company's scheduled, fixed-amount payout to investors
b) The trading price of a company that's makings its stock exchange debut
c) The amount a publicly held company pays to become privately traded
d) A company's value

5) How is the value of a company's stock determined?

a) By company executives
b) By the company's CEO
c) By the company's customers
d) By stock market investors, who respond to a company's outlook by buying or selling, and in turn, enhancing or minimizing demand