UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Major Stock Exchanges - UPSC Economy Notes

Stock Exchange is a place where traders buy and sell securities. A stock exchange is often the most important component of a stock market. The auction of securities is done in a systematic way, i.e. abiding by certain rules and regulations.

The security to be traded in the stock exchange has to be listed there.

Major Stock Exchanges in India

The major stock exchanges in India are stated below:

National Stock Exchange

The National Stock Exchange was founded in 1992. It was recognised as a stock exchange by SEBI under the Securities Contracts (Regulation) Act, 1956 and the operation commenced in 1994. Vikram Limaye is the Managing Director & Chief Executive Officer of National Stock Exchange of India Ltd (NSE).

It was the first exchange in India to provide fully computerized electronic trading. NSE is one of the pioneers in technology and innovation which ensured the high-end performance of its systems. The exchange supports more than 3,000 VSAT terminals, making the NSE the largest private wide-area network in the country.

Its automated system makes it's more reliable and efficient in comparison to the Bombay Stock Exchange (BSE).

Bombay Stock Exchange

The Bombay Stock Exchange was founded on July 9, 1875. It is Asia's first stock exchange.

In 1875, eminent businessman Premchand Roychand officially founded the Native Share and Stock Brokers Association which was later renamed the Bombay Stock Exchange.

It is also the world's fastest exchange with a median trade speed of six microseconds.

The Indian government recognized it officially as per the Securities Contracts Regulation Act in August 1957.

The BSE joined the United Nations Sustainable Stock Exchange initiative in 2012. Shri Ashishkumar Chauhan is the MD & CEO of BSE (Bombay Stock Exchange).

Approximately 5000 companies are listed in BSE.

To know about the Securities and Exchange Board of India, refer to the linked article.

Important Indices

1. Sensex (Based on 30 companies)

2. BSE-100 (Based on 100 companies)

3. BSE-200 (Based on 200 companies)

4. Dollex (Based on dollar value of BSE-200 companies)

5. Bankex (Based on shares of banks only)

6. Reality index (Based on shares of real estate companies)

Sensex (Sensitive Index) – Most important index of BSE – Index of a stock exchange measures change in market capitalisation

Bear Market

A Bear market is a condition in which the prices of securities are falling and widespread pessimism causes the negative sentiment to be self-sustaining.

As investors anticipate losses in a Bear market and the more the selling continues, pessimism only multiplies. If the market indices fall by more than 20 percent then we have a Bear market.

In a Bear market prices stays around at the same price and then go down along with the indices and volumes get stagnant. In a Bear market it is difficult to make quick profit unless the seller borrows the stocks from someone else, sells the share at market price and repurchase the stocks and return them to the owner.

For instance, the rupee fell by 30 paise to a 28 month low of 67.59 against dollar due to the foreign capital outflows coupled with the fall in equities caused by the drop in crude oil prices and Chinese market falls.

The Foreign Institutional Investors (FIIs) had pulled out Rs.3484 in the last two weeks. To counter the damage. This would hence reduce the gains from the crude oil price fall to some extent.

Criteria for selection of 30 companies

- Based on shares of large companies
- Shares must be frequently bought and sold
- There should be atleast one leading company from each sector