The New York Stock Exchange CFIN 7 Case Study

More than 2 billion shares of stock are traded (bought and sold) through the New York Stock Exchange (NYSE) on a typical business day. Often called the "Big Board," the NYSE is one of the oldest and largest stock markets in the world.

The New York Stock Exchange started in 1792 through the efforts of 24 brokers and merchants. Five securities were traded when the NYSE started. Three were government bonds and the other two were bank stocks. Today, nearly 2,700 companies are regularly on the exchange, including most of the largest U.S. corporations as well as many foreign companies.

In recent years a combination of three institutions created the NYSE Group. This merger of the New York Stock Exchange, Archipelago, and the Pacific Exchange created the largest-ever securities exchange. The NYSE Group has a global emphasis. Over 450 companies from nearly 50 countries make up the NYSE non-U.S. directory. More recently, the NYSE had plans to purchase Euronext. This Europe-based stock exchange was created by a merger of the Paris, Brussels, and Amsterdam exchanges.

The members of the New York Stock Exchange are registered brokers and dealers. They are approved to initiate transactions on the trading floor or through the online facilities of the NYSE. A floor broker will usually execute the buy or sell order. Also involved in the transaction process is the specialist. This market maker creates an efficient buying and selling environment for a given stock. The main activities of the specialist are

- To create a fair and orderly trading environment by setting the day's opening price and reporting bid and offer prices during the trading day
- To be the contact point to bring together brokers with buy and sell orders
- To carry out orders as required by the floor brokers. This activity may require specialists to buy or sell from their own inventory of the stock

Traditionally a system of open outcry was used on the trading floor. Today this process is being replaced by electronic exchanges. In an effort to maintain its market leadership, the NYSE operates both a floor auction exchange as well as a system to facilitate online trades.

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What activities of the New York Stock Exchange might affect your life?

2. What activities does the NYSE provide to assist businesses?

3. How do expanded global business activities affect the NYSE?

4. Describe positive and negative aspects of stock exchange mergers for companies and investors.

5. How might technology affect future NYSE activities?

6. What aspect of the NYSE activities poses the greatest challenge for its future? What actions would you suggest to address this concern?