Name ____________________________ Date _________________

How Does the Stock Exchange Work?

Directions: Read the paragraph and answer the questions.

We hear the stock exchange on a daily basis. This number goes up and that number goes down, but what does it all mean? How do you make and lose money with the stock market? And why do people worry about those numbers anyway?

A stock exchange allows companies to offer a specific piece or share of their company to anyone for money. A share represents a small percentage of ownership within a company. The first company to issue shares of stock was the Dutch East India Company, in 1602. People that purchase the shares can in turn sell their shares to other people. The stock exchange is a physical or electronic place where buyers and sellers meet to trade these shares. There are many stock exchanges throughout the world.

The value of the shares increases and decreases as the company has success or difficulty. If a person buys a share in a company that has success in the future the value of that share increases. The price of the share can also be affected by the health of the economy, financial or technical reports, and/or the success of other companies. As more people want to purchase a stock, the value of that stock increases. When you purchase a stock, you hope a continual wave of good news for that company.

The goal of shareholders is to buy a stock for a low price and sell it for higher price. Well established companies give their profits to shareholders in the form of a dividend. If a company has 10 shareholders and they make $1000 in a years' time, each shareholder will receive $100. The stock still retains its value on top of the dividend paid to shareholders.

To buy or sell a stock you would need to establish an investment account. This account is maintained by stockbrokers. Stockbrokers buy and sell stock for the clients they represent. Stockbrokers receive either a percentage of the sale or a flat rate per stock trade.

Name ______________________________ Date __________________

Answer the question using the information from the paragraph. Give evidence if needed.

1. What is meant by a "share" of a company?

____

____

2. What company can be seen as the inventor of the Stock Market?

____

____

3. If a wide variety of negative news were to circulate about a particular public company, how would the value of that company’s stock be affected? Explain in detail.

____

____

____

Name ____________________________ Date _________________

4. How can a shareholder of a well established company make money without selling their stock?

____

____

5. If you wanted to buy stock, who would you need to contact?

____