

What is an Exchange?

Suggested Grade & Mastery Level

High School - all levels

Suggested Time

50 minutes

Teacher Background

In The Stock Market Game, students buy and sell stocks and mutual funds listed on the three major US stock exchanges: the American Stock Exchange (AMEX), the NASDAQ Stock Market, and the New York Stock Exchange (NYSE). Each exchange has its own specific requirements or “listing standards” that companies must meet in order to be listed on the exchange. Once listed, companies must abide by the rules of its exchange. For more information on the specific exchanges, please look on the exchange websites (NYSE.com, NASDAQ.com, AMEX.com).

The AMEX uses an integrated platform. Shares are traded through auction (buying and selling on a physical trading floor) and electronically (buying and selling directly between computers). In 1998, the AMEX merged with the National Association of Securities Dealers (NASD), which at the time also operated the NASDAQ Stock Market. The NASD has since divested itself from the NASDAQ.

The NASDAQ Stock Market is the largest electronic stock market in the US. The NASDAQ is an automated auction center. Transactions take place on a virtual platform. Investors are at remote locations buying and selling shares on a virtual platform.

The NYSE uses an auction platform; buying and selling takes place on the trading floor. In December 2005, the NYSE and Archipelago, an electronic market platform business, agreed to merge, forming the NYSE Group, Inc. On March 8, 2006, NYSE Group, Inc. became a publicly traded company, creating a broader trading platform that provides greater speed for electronic trading in a global market. In addition to the electronic platform, the NYSE Group continues to operate its trading floor.

Vocabulary

Auction market: Auction market trading, sometimes known as open outcry, is the way the major stock and commodity exchanges, such as the New York Stock Exchange (NYSE) and the Chicago Board of Trade (CBOT), have traditionally handled buying and selling. Brokers acting for buyers compete against each other on the exchange floor, as brokers for sellers do, to get the best price. Trading is intense but orderly because the participants adhere to exchange rules.

Electronic communications network (ECN): An ECN is an alternative securities trading system that collects, displays, and executes orders electronically. Trading on an ECN allows investors to buy and sell anonymously. ECNs also facilitate extended, or after-hours, trading. ECN trade execution can be faster and less expensive than trades handled through screen-based or traditional markets, though the volume is sometimes thin. However some ECNs have been approved for official stock exchange status, expanding the number of stocks that can be traded on their systems.

Listing Requirement: Each organized securities exchange and stock market — including the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the NASDAQ.

National Market (NASDAQ): sets listing requirements a corporation must meet in order to have its stocks or bonds traded on that exchange or market. Among the listing criteria are a minimum corporation pretax earnings, a minimum market value and a minimum number of existing shares. For example, the NYSE, which has the most stringent requirements, requires pretax earnings of \$2.5 million, a minimum market value of \$100 million and at least 1.1 million shares.

Public Float: The portion of a company's outstanding shares that is in the hands of public investors, as opposed to company officials.

Performance Objectives

Students will be able to:

- Compare and contrast standard listing requirements for each exchange
- Understand the advantages and disadvantage of listing on NYSE, NASDAQ, and AMEX
- Draw conclusions about how the exchange on which a stock is listed may impact the choices made by SMG teams
- Draw conclusions on the role technology has played in changing the work and impact of the stock market

Subject Areas

English Language Arts, Economics, Technology/Research, Mathematics, Social Studies, Business

Materials

- Computers with access to the Internet
- Fact Sheet 1: Initial Public Offerings—Standard Listing Requirements for IPOs
- Activity Sheet 1: Exchange Characteristics
- Activity Sheet 2: Now It's Your Turn

Resources

The following web sites are resources for both the student and teacher.

www.thestreet.com - Students can learn about different stocks and stocks that are currently doing well.

http://www.ftpplanet.com/auction/begin_guide.htm - Beginners guide to online auctions. This site gives teachers a definition of auction "lingo" as well as buyer and seller trips.

<http://www.bestsearchers.com/best-websites/investing-exchanges.php#ExchangesImportant> - Best Searches features *Important Financial Exchanges/Authorities and Commissions*. The web-site lists US and global financial markets. Related pages include discount and full brokers, financial news, company news and annual reports.

<http://www.investopedia.com/> - A database of more than 4,500 terms is one of the many features available at this web-site.

<http://www.archipelago.com/> - Archipelago Exchange® (ArcaEx®)

<http://www.nyse.com/about/listed/listed.html> - Listed Company Directory - for the NYSE.

www.nyse.com/pdfs/Nasdaq-67_Transfers_Memo_2-1-2006.pdf - Companies transferred from NASDAQ to the NYSE

Listing Standards: Requirements for the three major exchanges

NASDAQ: http://www.nasdaq.com/about/nasdaq_listing_req_fees.pdf

NYSE: <http://www.nyse.com/about/listed/1022221392369.html>

AMEX: <http://wallstreet.cch.com/AMEX/CompanyGuide/>

Springboard Activity

ASK

- How many of you have a favorite clothing store?
- Why doesn't everyone shop in the same store?
- What are the advantages and disadvantages for the consumer? For the stores?

There are a number of different exchanges that trade securities.

ASK

- Why do you think all securities are not traded on one exchange?

Elicit and create a list of possible reasons for multiple markets.

Procedure

Make the following statement, or write it on an overhead or chart paper:

"The former president of Instinet, an electronic exchange, compares the new NYSE Group, a merger of the New York Stock Exchange and the electronic trading system, Archipelago, to eBay. Others have also made a comparison between the various stock exchanges and eBay. Today we will research the three markets used to trade stock. After we have completed our research we will discuss the comparison made by the Instinet president."

Novice Level:

Divide students into their SMG teams. Introduce the three markets that are used in the stock market game: New York Stock Exchange, NASDAQ, and American Stock Exchange.

Divide the board into three columns, writing the name of one exchange on the top of each column. Distribute **Activity Sheet 1: Exchange Characteristics**.

Have students read the material, visit web sites, and work with their teammates to add information to the activity sheet that will help them recognize the distinctive features of each of the three stock exchanges.

Have teams report to the class on the information they have added to the activity sheet and have the class reach consensus on what should be included. Record their responses. Have a class discussion about the Instinet president's remarks. Press students to support their answers from the research they have completed.

Note: Research may need to include Ebay.

Apprentice Level:

Divide students into their SMG teams. Introduce the three markets that are used in the stock market game: New York Stock Exchange, NASDAQ, and American Stock Exchange.

Divide the board into three columns, writing the name of one exchange on the top of each column. Distribute **Activity Sheet 1: Exchange Characteristics**.

Have students read the material, visit web sites, and work with their teammates to add information to the activity sheet that will help them recognize the distinctive features of each of the three stock exchanges.

While the students are still in their groups, distribute **Fact Sheet 1: Standard IPO Listing Requirements**.

ASK

- What is an IPO?
- Why might a company decide to go public?
- Why do the exchanges need to establish financial guidelines for listing Initial Public Offerings?
- What are the differences among the three exchanges in how they determine the trading requirements for individual shares of the IPO?
- What are the differences among the three exchanges in the capitalization they require for a company to list its IPO?
- If you were interested in purchasing an IPO, would you favor an IPO listed on one exchange over those offered by the others? Explain.

Master Level:

Divide students into their SMG teams. Introduce the three markets that are used in the stock market game and distribute **Fact Sheet 1: Standard IPO Listing Requirements**.

ASK

- What is an IPO?
- Why do the exchanges need to establish financial guidelines for listing Initial Public Offerings?
- How are the three exchanges different in how they determine the trading requirements for individual shares of the IPO?
- How are the three exchanges different in the capitalization they require for a company to list its IPO?
- If you were interested in purchasing an IPO, would you favor an IPO listed on one exchange over those offered by the others? Explain.

Have the teams research a recent IPO.

ASK

- What exchange was chosen? Why?

Grand Master Level:

Have students identify three recent IPO companies, one listed on each exchange. Have them write a short paper comparing and contrasting the similarities and differences in the companies' sizes, products, and financial data. Also, explain why they think each chose the exchange on which they were listed. Have the teams develop a chart outlining the data they uncovered in their research.

Assessment

Have students write entries in their journals explaining why is it important for them to be able to differentiate among the exchanges as they create their portfolios during the SMG competition. Make sure they include information about the roles and/or functions of the various exchanges.

Have the students write a recommendation to the president of a new technology company on which market she should offer her IPO. They need to know that she needs capital to manufacture a risky new iPod attachment. Have them discuss the advantages and disadvantages of listing on each market, make a selection for her listing, and explain their recommendation.

Application

All Levels:

ASK

- Based on your research, how do you think that your knowledge of the exchanges will shape your team's investment strategy? Explain.
- What conclusions can you draw about how the exchange on which a stock is listed should impact the choices made by SMG teams?
- What conclusions can you draw about the role technology has played in changing the work and impact of the stock market?

Grand Master Level:

Have students develop a chart showing the steps that a company would go through to participate in an initial public offering that includes information on selecting an exchange.

Enrichment Activities

Distribute Activity Sheet 2: **Now it's Your Turn**. Have students use today's discussion, resource material and research to complete the assignment.