

APR 11 1980

economic education newsletter

## The Great Exchange



Wall Street's Curb Market, 1902

Courtesy, Library of Congress

The following article introduces students to basic facts about the stock market by describing the development and operations of the American Stock Exchange (Amex). The Amex was selected because of its interesting historical background and its similarity to the New York Stock Exchange, the largest exchange in the country. Follow-up activities are suggested at the close of the article and stock market definitions are found on page 3. Refer to the "Innovative Classroom" section of the newsletter for related class activity.

It was 1850, and a small group of men was beginning to gather in the streets of New York's financial district. Every day they crowded around lamp posts, fire hydrants and mailboxes and carefully inspected lists of securities (stocks and bonds) posted there. These men were investors, people who had bought securities from companies trying to raise money; they were the first participants in what would later be known as the Outdoor Curb Market.

Like the older New York Stock Exchange, the Outdoor Curb Mar-

ket was started by investors who wanted to trade shares of stock, as well as bonds, among themselves. These investors hoped to make a profit by buying shares at low prices and later selling them at higher prices.

Eventually some traders, known as brokers, began to buy and sell securities for other investors. When the streets got too crowded, clerks working for the brokers moved indoors to offices with windows overlooking the Market. There clerks took orders to buy shares and would relay the messages to their brokers down on the street. Because it was difficult to be heard above the commotion of the Market, some clerks began to relay their orders through hand signals. Hand signals are still used by exchange clerks today.

The brokers also added an unusual flair to the Outdoor Curb Market. To help their clerks find them in the crowd, they began to

wear brightly-colored hats and jackets. The Curb Market was said to have been one of the most colorful sights in New York.

By the turn of the century, millions of dollars worth of securities were being traded out in the streets, during all kinds of weather. Because of this expansion, the Market needed more organization. Ultimately, a constitution was adopted, brokers registered and regulations enacted.

Along with the obvious difficulties of holding a securities exchange outdoors, the Market, by the early 1900s, had virtually outgrown the curb. In 1921, the Curb Market sold its last securities on the streets of New York and moved indoors.

The Outdoor Curb Market has undergone two name changes since 1850 and today is known as the American Stock Exchange or Amex. Currently, it is the second largest exchange in the country, with more than 1,250 corporations represented on its trading floor. (The largest stock market is the New York Stock Exchange, which originated shortly after the Revolutionary War.)

### LISTED SECURITIES

Companies, in order to become established and to expand, often must rely on outside sources for financing. Selling securities directly (not through the Exchange) to groups of investors (usually investment bankers) is one way in which companies can raise funds. If the company is listed on the Amex an investment banker

can, in turn, sell those securities on the floor of the Exchange. Companies do not use the Exchange to sell their stocks directly to investors, rather individual investors, as well as large investment groups, use the Amex to trade stocks among themselves.

Companies whose securities are listed for trading on the Amex must first meet certain requirements relating to company size, current earnings, market value of securities and other criteria. Once the company is approved, its securities are assigned to a particular member of the Exchange, called a specialist. Many new companies are listed on the Amex each year. At the same time, others may be removed because they failed to maintain listing requirements or because of a merger, liquidation or other reason.

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## INVESTORS

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Most of the people for whom securities are traded on the Amex are individual investors, including homemakers, doctors and lawyers. Other investors include banks, mutual funds, insurance companies and pension funds.

Due to technological advances in communication, investors, around the world, can buy or sell shares of stocks in a matter of minutes. For example, a California investor interested in buying shares of XYZ stock would call a local broker who is registered with the Amex. Using an electronic desk unit hooked up to the main computer in New York, the broker would inform the investor of the current status of XYZ stock. From that information, the investor could then make his investment decision.

If the investor instructs his broker to "buy a hundred at the market," he is actually telling the broker to buy 100 shares of XYZ stock at the best possible price once his order reaches the Amex trading floor. The broker will transmit the message to his firm's main office in New York and the main office will contact its clerk on the floor of the Exchange.

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## FLOOR CLERKS

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Instead of dangling from windows, clerks today are located in booths, several tiers high, on the east and west sides of the trading floor. When an order is received

from the main office, the clerk will page his floor broker by using an electrically-controlled signal board. The clerk will then relay the order by using hand signals or by sending an order down to the broker via a conveyor belt located on the side of the booths.

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## FLOOR BROKER

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Only a broker who has a "seat" on the Exchange may trade there. A "seat" on the Exchange does not refer to an actual chair for the broker but means that the broker is a member of the Amex and his firm is a member firm.

Once the floor broker receives the order, he will quickly take it to one of 11 circular posts in which stock is traded. No one on the floor is allowed to run, but many brokers walk at a very fast pace to execute their orders.

At the post the broker asks the specialist in charge of XYZ stock for the last bid to buy and the last offer to sell the stock. For example, the specialist may tell the broker that the last bid to buy was  $30\frac{1}{8}$  (dollars per share) and the last offer to sell was  $30\frac{3}{8}$ .

The broker then turns to the other brokers gathered around the post (called the trading crowd) and, starting with the last bid of  $30\frac{1}{8}$ , will negotiate a price with another broker who has an order to sell 100 shares of XYZ. Since both the buying and selling brokers are trying to get the best possible price for their customers, the final price they agree upon will probably be somewhere between  $30\frac{1}{8}$  and  $30\frac{3}{8}$ . No contract is signed, but the broker's word seals the trade.

Once the transaction is made, an Amex reporter records the sale on a card and the data is given to a clerk inside the post. The data clerk puts the card into an electronic reader and the sale appears on a trading floor ticker tape and in brokers' offices throughout the world. The individual investors who bought and sold the stock are then notified of the transaction.

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## SPECIALIST

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The role of the specialist on the trading floor involves much more than providing information about stock prices. Referred to as "the man in the middle," the specialist's most important function is to maintain a continuous and orderly market. In other words, he tries to

assure a market in which investors can buy and sell securities anytime during trading hours at prices the same, or close to, the last sale.

The specialist maintains a continuous market by buying securities in declining markets (when most brokers want to sell) and selling securities in rising markets (when most brokers want to buy). The specialist buys and sells these securities using his own portfolio (securities held by an investor).

The specialist is also a broker's broker. A floor broker who has an order "away" from the market (price under or over the current market price) is too busy to wait and fill the order. Instead he will leave it with a specialist in charge of that particular stock. Putting the order in a slot on the outside of the post, called a pigeonhole, the specialist will execute the order when the market price drops or rises to meet the order request.

Amex specialists also handle odd lot orders, i.e., orders for less than 100 shares. (Most shares on the Amex are sold in round lots of 100 shares.) For example, an order for 50 shares of XYZ would completely bypass the floor clerks and brokers and go directly from the member firm's order room to the specialist, via computer. The specialist would then execute the odd lot order.

Both the Amex and the New York Stock Exchange are located in New York City, but other exchanges are operating in other parts of the country. These stock markets include the Boston\*, Philadelphia, Pacific and Midwest exchanges. Stock prices from these exchanges appear every day in hundreds of different newspapers.

The six exchanges, operating with similar systems, play an important part in the American economy. The stock market provides a market place for both large and small investors to trade securities among themselves. Fewer investors would be interested in owning securities if there wasn't such an outlet for the trading of securities. Without the stock exchange, the expansion of American business would be limited, as it depends on financing through the sale of its securities.

*\*Free tours of the Boston Stock Exchange, located at One Boston Place, are available at 10:00 a.m. and 2:30 p.m. on any business day. The tours*

are limited to high school juniors and seniors and to college students, and can be arranged by calling the Exchange's public relations director at (617) 723-9500. No walk-in tours are provided.

### WHAT'S IN A STOCK TABLE

The following terms are column headings taken from newspaper stock listings. To understand a stock table, begin with the company's abbreviated name and read as follows:

**Dividend** — A payment to stockholders that is distributed according to the number of shares held by each stockholder in a company. Dividends may be paid in cash or stock or both.

**Yield (%)** — The current dividend of the company's stock divided by the stock's current market price.

**Price-Earnings (P-E) Ratio** — The market price of the company's stock divided by its per share earnings.

**Sales in 100s** — The number of shares (in hundreds) sold that day.

**High** — The highest price paid for the company's stock that day.

**Low** — The lowest price paid for the company's stock that day.

**Close** — The price paid at the last sale of the day.

**Net Change** — The difference between the day's closing price and the closing price of the day before.

### FOLLOW-UP ACTIVITIES

- Outline the differences between stocks and bonds.
- List several sources an investor relies on for stock market data. What information would help an investor make a wise investment decision?
- Discuss the stock market's influence on industrial growth. What would it be like without a stock market?
- Define the Dow Jones Index. Why is it an important indicator of stock market activity?
- Discuss some of the events leading to the stock market crash of 1929. What protections, if any, do we have against a faltering stock market today?
- Using newspaper stock listings, pick a company listed on one of

the exchanges and keep track of its stock prices. Pick dates on which shares of the company's stock might have been purchased and sold and compare the closing prices on those days. Did the investment result in a profit or loss of money? Compare the results with other class members.

## Innovative Classroom



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Students who want to experience the excitement of the stock market can now do so in their own classrooms by participating in the Stock Market Game. Used nationwide, the computerized game simulates the activities of real stock market operations.

The game was originally developed in Canada and was brought to the United States in the mid 1970s by Dr. William B. Bennett, professor of economics at Buffalo State College in New York. The game has gradually gained popularity throughout the nation as more and more organizations, particularly economic education councils and universities, are providing the necessary computer facilities for it.

On February 25, the game was introduced to New England when approximately 86 Rhode Island and Massachusetts schools took part in the game. The game was sponsored by the Providence Journal in conjunction with the Tucker Anthony Investment Firm and the Rhode Island Council on Economic Education.

Divided into teams of four or five members, students playing the

*Text Continued On Page 4*

## Multi-media

**Journey Through a Stock Exchange**, published by the American Stock Exchange.

A colorfully illustrated description of the American Stock Exchange, this booklet takes Andy, who has just received 12 shares of stock, on a tour through the Exchange. The history of the Exchange, a glossary of stock market terms, and information about tours are also contained in the booklet. Teachers can receive a free copy by writing to The American Stock Exchange, 86 Trinity Place, New York, NY 10006. Multiple copies are available at 25¢ a copy. (Appropriate for high school students.)

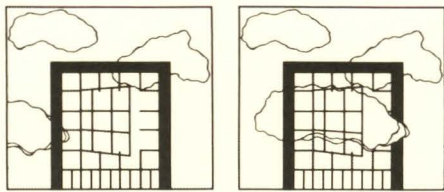
**The One Man Band That Went to Wall Street**, produced by Modern TV for the New York Stock Exchange.

A cartoon involving the innovative Fred Fugue, this film explains the history, theory and operations of the New York Stock Exchange. Beginning as a small one-man band, Fugue's business expands into a large corporation and eventually is listed on the New York Stock Exchange. Once on the Exchange, Fugue's corporation illustrates how incidents affecting the company will also affect the buying and selling of the company's stock. Terms such as broker, investor and specialist are also comically described in the film. The thirteen-minute film is available on a free loan basis by writing to the Center for Economic Education, Rhode Island College, Providence, RI 02908; or by calling (401) 456-8037. (Appropriate for high school and adult groups.)

**Federal Reserve Glossary**, published by the Board of Governors of the Federal Reserve System.

A 25-page booklet defining terms relating to monetary policy, the payments mechanism, financial regulators and institutions, foreign exchange and consumer credit. The booklet is free and is available by writing to the Bank and Public Information Center, Federal Reserve Bank of Boston, Boston, MA 02106; or by calling (617) 973-3459. (Appropriate for junior high, high school and adult groups.)

## Fed Update



□ An exhibition of Prison Art will be at the Boston Fed during the month of April. The exhibition will consist of paintings and photography from the Prison Art Project, a non-profit organization that



AUTUMN NIGHT . . . Ed Kelsey

provides creative arts workshops and programs for the inmates of Massachusetts' correctional facilities. Arrangements must be made in advance for groups to view the free exhibition.

□ "Art of the State, 1980," an exhibition by winners of the Artists Foundation fellowship awards in painting and printmaking, will be at the Boston Fed May 27 through June 20. Each year the Artists Foundation awards fellowships of \$3,500 to 70 of the most outstanding artists in Massachusetts. The finalists are selected by nationally-known artists who review the art work of approximately 4,000 state entries. The exhibition will be open to the public, at no charge, from 10:00 a.m. to 4:00 p.m., Monday through Friday.

□ Boston University's School of Music will present concerts at the Boston Fed on April 10 and 24 and on May 1. The thirty-minute concerts will begin at 12:30 p.m. and are free of charge.

*For more information about the Fed's exhibitions and concerts, contact Kathy Toussaint, Public Services, Federal Reserve Bank of Boston, Boston, MA 02106; (617) 973-3368.*

## Innovative Classroom

*Text Continued From Page 3*

ten-week game were given hypothetical portfolios of \$100,000 to buy specific stock listed on the New York Stock Exchange. The goal of each team was to exceed the other groups in the profits made from their stock market investments.

Based on the previous day's closing stock prices, students used pre-punched computer cards to indicate each day's stock market transaction. Every Friday the cards were sent to the Journal for processing, and a printout of results was returned the following week.

As a simulation of real-life stock market activity, the game allowed students to buy and sell stocks and also to "sell short" (borrow stock to sell in hopes of making a profit by buying the stock later at a lower price). Likewise, students were expected to abide by actual stock market credit regulations and to pay realistic brokers' fees and interest rates.

Researching the factors which influence the stock market was also

an important part of the game. A list of reference sources was suggested and students were urged to investigate the earnings, equity, dividends and growth of the businesses whose stocks were listed.

The stock market game sponsored by the Journal will also be offered this fall. Those living within the Journal's circulation area who would like more information about the game can write to John Hazard, Stock Market Game, Providence Journal, 75 Fountain Street, Providence, RI 02902; or call (401) 277-7230. A representative will be available to answer calls on Tuesdays from 9 a.m. to 12 p.m.

The game is appropriate for college, high school and junior high students, and the cost for materials is minimal. Funds to help finance the game are also available from the Securities Industry Association. For more information, contact Frank L. McHugh, Secretary, Securities Industry Association, 20 Broad Street, New York, NY 10005.

## New England Update

### CONNECTICUT

The **Center for Economic Education at Central Connecticut State College** will hold its annual Economic Institute during the three-week pre-session, May 26 to June 12, and during the regular summer session, June 30 to August 7. A series of week-long, one-credit graduate courses, the institute will focus on such topics as environmental economics, the economy of Connecticut, urban economics, manpower economics, and the American banking system. Also offered are special two-credit courses dealing with the basic framework for teaching economics. Tuition is \$40 per graduate credit. For more information, write to the Center for Economic Education, Marcus White Hall, Room 117, New Britain, CT 06050; or call (203) 827-7318.

### NEW HAMPSHIRE

**Correction:** The dates for the 7th annual summer workshop sponsored by the **New Hampshire**

**Council on Economic Education** have been changed. The workshop will now be held June 30 through July 12 instead of July 28 to August 8 as was indicated in the January Ledger.

## the LEDGER

Editor: Debra Carpenter-Beck  
Graphics Arts Designer: Ernie Norville

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