

Showtime on Wall Street

Terms of Trade

Asked (or Offer) Price:	The price that sellers are willing to accept for a particular stock at a given time.
At the Market:	An order to buy and sell a stock at the best price currently available.
Benefits of Trade:	The advantages obtained by buyers and sellers when they trade a stock.
Bid Price:	The price that buyers are willing to pay for a particular stock at a given time.
Broker:	An individual or business that specializes in bringing together buyers and sellers of stocks.
Clerk:	A member of a brokerage house who transfers orders and information between stockbrokers in an office and floor brokers at a stock exchange.
Commission:	The fee a broker and/or stockbroker collects for helping people buy and sell a stock.
Costs of Trade:	The time and money buyers and sellers spend to find one another and arrange trades.
Floor Broker:	A member of a brokerage house who completes a customer's buy or sell order on the floor on a stock exchange.
Limit Order:	An order to buy or sell a stock at a certain (or better) price. A buyer's limit order for \$20 would be completed only if each share can be bought for \$20 or less.
Quotes:	The highest price bid by a buyer and the lowest price asked by a seller for a stock at a given time. Quotes are expressed in dollars.
Specialist:	A broker on an exchange who trades in certain stocks at a specific location (post) on the trading floor. Each specialist has an assigned post where all trading of particular stocks occurs. Specialists quote the current prices of stocks traded at their posts and they complete limit orders.
Stockbroker:	A broker who accepts orders to buy and sell stock and then transfers those orders to other people who complete them.

The Cast

MODERATOR	SELLER'S STOCKBROKER	SELLER'S FLOOR BROKER
BUYER	BUYER'S CLERK	SPECIALIST
SELLER	SELLER'S CLERK	
BUYER'S STOCKBROKER	BUYER'S FLOOR BROKER	

Stage Directions

In the front of classroom: MODERATOR.

On one side: BUYER and BUYER'S STOCKBROKER (in corner), SELLER and SELLER'S STOCKBROKER (in other corner).

On other side of classroom (sign labeled NYSE is on this side of the room): BUYER'S CLERK and SELLER'S CLERK (in one corner), SPECIALIST and a few students to play the silent roles of other floor brokers near the specialist's post (in other corner near the sign labeled McDonald's [MCD] Trading Post), BUYER'S FLOOR BROKER and SELLER'S FLOOR BROKER between clerks and specialist.

Drops

Two newspapers; two telephones; two computers; an order machine; a NYSE sign; an "MCD" sign.

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The Play

- MODERATOR:** In order to understand how the stock market works, let's begin by visiting a buyer of a stock whose shares are listed on the New York Stock Exchange.
- BUYER:** [reading the stock pages of a newspaper] I've wanted to buy stock in McDonald's, the fast-food company, for a long time. I think I'll call my stockbroker and find out what the stock is selling for right now. [dials number on telephone] Hello, Stockbroker? Would you please tell me what is the price of McDonald's?
- BUYER'S STOCKBROKER:** [answering the telephone] Certainly, Buyer. Let me check for you [looks at a computer]. The last sale of McDonald's was forty and an eighth.
- BUYER:** That's a great buy. I expect the price to rise and the company to pay big dividends in the future. I'd like to order 100 shares.
- BUYER'S STOCKBROKER:** Okay, I'll get on it right away. But first, tell me if you want to buy at the market or if you want me to enter a limit order for you.
- MODERATOR:** An order to buy or sell at the market tells the broker to take the best price being offered on the trading floor of the New York Stock Exchange. A limit order tells the broker to buy or sell at a given or better price.
- BUYER:** Buy it at the market.
- BUYER'S STOCKBROKER:** I should be able to confirm the purchase right away. I'll call you back in a few minutes.
- MODERATOR:** Before we follow the buyer's order to the stock exchange, let's watch as someone places an order to sell shares of McDonald's.
- SELLER:** [reading the stock pages of a newspaper] I've been thinking about selling some of my shares of McDonald's stock. I think I'll call my stockbroker [dials number on telephone]. Hello, Stockbroker? What's McDonald's stock selling for right now?
- SELLER'S STOCKBROKER:** [answering the telephone] Let me see [looks at a computer]. The last sale in MCD was forty and an eighth.
- SELLER:** I should sell at that price. I bet if I keep the stock its price will fall and the company will pay lower dividends in the future. Please sell 100 shares for me.
- SELLER'S STOCKBROKER:** I can do that right away. But do you want to sell at the market or do you want me to enter a limit order for you?
- SELLER:** Sell my shares at the market.
- SELLER'S STOCKBROKER:** I'll do that now and call you back in a few minutes.
- MODERATOR:** The buyer and seller have placed their orders with their stockbrokers. Let's watch as those orders are sent to the stock exchange to be completed.
- BUYER'S STOCKBROKER:** [Goes to order machine and presses buttons] First, I have to send this order to buy 100 shares of McDonald's (MCD) stock to my company's clerk on the floor of the New York Stock Exchange.



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BUYER'S CLERK:

[noticing that the order machine is running] The order machine is running again. It must be another order from one of our offices. Let's see what it says. [Reads.] Buy 100 shares of MCD stock-that's McDonald's. I'd better give this order to our company's broker on the floor. [Clerk signals his company's representative on the trading floor.]

BUYER'S FLOOR BROKER:

There's my clerk signaling me. I'd better see what's up. [The broker goes to a booth on the side of the trading floor, gets the order, and reads.] Buy 100 shares of MCD stock at the market. I'll have to do that at the McDonald's trading post. [The floor broker walks there.]

MODERATOR:

Now let's see how the seller's stockbroker handles the seller's order.

SELLER'S STOCKBROKER:

[goes to order machine and presses buttons] I have to send this order to sell 100 shares of McDonald's (MCD) stock to my company's clerk on the floor of the New York Stock Exchange.

SELLER'S CLERK:

[noticing that the order machine is running] Here comes another order from one of our offices. [Reads.] Sell 100 shares of MCD stock-that's McDonald's. I'll deliver this order to our company's broker on the floor. [Clerk signals his company's representative on the trading floor.]

SELLER'S FLOOR BROKER:

I see my clerk signaling me. I'd better see what's up. [The broker goes to a booth on the side of the trading floor, gets the order, and reads.] Sell 100 shares of MCD stock at the market. I'll have to do that at the McDonald's (MCD) trading post. [The broker goes to the MCD trading post where the buyer's floor broker is standing.]

MODERATOR:

Stock exchanges have various locations called posts, where different stocks are traded. Each post has a specialist assigned to it. One of the jobs of a specialist is to quote the current price of a stock. Let's see what happens when the stockbrokers for the buyer and seller take their orders to the specialist at the MCD trading post.

BUYER'S FLOOR BROKER:

[walks over to the MCD trading post, where other brokers have orders to buy or sell MCD stock and looks at imaginary video screen] How's McDonald's?

SPECIALIST:

Forty to forty and a quarter.

MODERATOR:

The first number the specialist said is the current bid price. This price of \$40 is the highest price buyers are willing to pay for a share of McDonald's stock. The second price is the asked price. This price of \$40.25 is the lowest amount sellers are willing to accept for a share of MCD.

SELLER'S FLOOR BROKER:

[approaches the MCD trading post, checks the video screen and announces to the group of brokers] One hundred at forty and a quarter.

MODERATOR:

This means that the broker is offering to sell 100 shares at \$40.25.

SELLER'S FLOOR BROKER:

[hearing no response from the crowd of brokers] One hundred at forty.

BUYER'S FLOOR BROKER:

[approaches seller's floor broker] Sold!

MODERATOR:

Standing next to the post is an employee of the stock exchange, called a floor reporter. Within seconds, the floor reporter records the sale on the computerized Market Data System. The new sale price is then reported on the computer monitor at the stock exchange and MCD 100 40 flashes on electronic displays around the world.

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BUYER'S FLOOR BROKER:

Now I've got to let our clerk know about this trade. [The broker walks over to the buyer's clerk.] Hi, Clerk, I just bought those 100 shares of McDonald's at forty.

BUYER'S CLERK:

Thanks. I'll send a message back to our stockbroker. [The clerk then presses numbers on the order machine.]

BUYER'S STOCKBROKER:

[hearing the order machine] The order machine is going again. Let's see what we've got. [Reads and comments.] Good, we bought those 100 shares of McDonald's for our buyer. I'd better let him (her) know. [The broker calls the buyer on the telephone.] Hello, Buyer? We got you the 100 shares that you wanted of McDonald's at \$40 a share. I'll get a confirmation in the mail to you today. You'll need to pay us \$4,000 plus my broker's commission.

BUYER:

Great! I knew you'd do it, but I didn't expect you to be so fast. I called you only ten minutes ago.

MODERATOR:

The seller also receives good news. Let's check and see what's happening.

SELLER'S FLOOR BROKER:

I have to tell our clerk about the sale. [The broker walks over to the seller's clerk.] Hi, Clerk. I just sold those 100 shares of McDonald's stock at forty.

SELLER'S CLERK:

Thanks. I'll tell our stockbroker back in our office. [The clerk then presses numbers on the order machine.]

SELLER'S STOCKBROKER:

[hearing the order machine] Something's coming in on our machine. [Reads and comments.] Good news, we sold those 100 shares of McDonald's for our seller. I better let him (her) know. [The broker then makes a call to the seller on the telephone.] Hello, Seller? We sold your 100 shares of McDonald's for \$40 a share. I will send confirmation of the sale and a check for \$4,000 less my broker's commission.

SELLER:

Great! And it took less than 10 minutes.

MODERATOR:

The stock market allows people to buy and sell stocks quickly and easily. Both our buyer and seller are happy with the trade because they both benefited from the trade. And, they are pleased that the brokers and people at the stock exchange made the trade possible by helping the buyer and seller find each other. This is how markets work and why they are so important to the economy.

The End