

## MICROECONOMICS AT WORK EXERCISE

### FINANCIAL MARKETS

**REFERENCE:** 'Long way to go for exchange' (by Mark Lawson), *Australian Financial Review*, 25 January 2005, p.45.

### CHAPTERS RELEVANT TO THIS EXERCISE: 3, 16

### CONTEXT

Markets for *financial capital* – for a share in the ownership of a business unit or firm – work in a way analogous to markets for *physical capital* – and indeed markets for *any* resource (or if it comes to that for *any* market, whether for a product or resource). What is being traded in financial markets is a share in the ownership of a firm, as distinct from the resource itself (be it capital or labour) or a product (e.g. a consumer good). There are the two factors of demand and supply at work. In this case the *supply* is represented by the share in the firm that is being offered. The demand for that share is what is termed a *derived demand* – derived in this case from the revenue that a potential owner of the share expects to receive from ownership of the share. Shares in firms, in Australia, are traded on the Australian Stock Exchange (ASX). The ASX is a market that is owned and operated as a business itself that generates a profit for its owners (i.e. it charges participants to operate in the market). However, some firms are too small to be listed on the ASX, although they may nevertheless seek to raise financial capital by offering a share in the firm to potential financial investors. To meet the need for a market for shares in small business enterprises other firms have established markets in which shares in such businesses can be traded. This article is about these markets, and on in particular – the Australian Pacific Exchange (APX).

### QUESTIONS

1. Explain the concept of a share (or stock) exchange as a market for financial capital.
2. What are some of the exchanges (in addition to APX) referred to in the article?
3. In what sense can the companies owning different exchanges be considered as 'competitors'?

4. Explain how the exchanges can be regarded as 'markets within markets'.
5. How might a profit be made by owners of an exchange?
6. Explain how exchange markets may also provide for trading in other types of financial assets.