

## The Impact of the Stock Market's Growth and Decline

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### DESCRIPTION

Stock prices fluctuate during the short term due to the law of supply and demand. Stock prices are determined by the daily buying and selling of trillions of shares of stock. A quick and unexpected fluctuation in stock prices is referred to as a stock market crash. A significant tragedy, a financial crisis, or the deflation of a long-term financial bubble can all lead to a stock market decline. Another important factor is the public's irrational anxiety involving a stock market decline, which can lead to panic selling and more price declines. Although there isn't a set benchmark, a stock market collapse is often thought of as a quick, double-digit percentage loss in an index of stocks over a few days. Economical effects of stock market crashes might be significant.

### Applications

- At the most fundamental level, supply and demand dynamics in the market have an impact on stock price.
- An organization's value is calculated by multiplying its price by the number of outstanding shares (market capitalization). Comparing two businesses only on the basis of their share prices is impossible.
- Although ideally a company's earnings should dictate how investors value it, investors frequently consider other aspects to project stock price. Remember that investor beliefs, attitudes, and expectations are ultimately what drive stock prices.
- Many theories have been put up to demonstrate why stock prices change in the manner that they do. Unfortunately, there isn't a single explanation that really can fit every circumstance.

### Different causes to fluctuate stock prices

- Company Earnings
- Overvaluation and Undervaluation
- Taxation changes

**Company Earnings:** Individuals create long-term investments in companies that are profitable and draw more investors, which increase the share price of the company. Every quarter and annually, companies who are listed on the stock exchange are

required to report their earnings in an Earnings Report or Quarterly Report, which enables you to assess whether the company's earnings have met or exceeded expectations. An organization that announces strong share price increases will inevitably see increased demand. However, if a company's earnings fall short of expectations or if actual earnings are lower than expected, the share price would certainly decline.

**Overvaluation and Undervaluation:** Undervalued stock prices may become worthless when a company discloses terrible news and investors sell their stock in response. Some seasoned traders keep a look out for chances to get in when the market is inexpensive because they think the business will soon perform better, creating demand. They anticipate receiving financial gain from the eventual increase in share price. In a manner similar to this, when a firm is expected to do well in the future, its share price rises. For instance, dot-com companies that were traded on the stock exchange overspent shareholders' money, fell short of expectations, and finally shut down, losing everyone who had bought their shares money.

**Taxation changes:** Reduce the share of nominal income that results from inflation from the tax base. With this strategy, the real taxable income decreases but the nominal taxable income stays the same. It will therefore make up for the effects of inflation. These may be just a few of the many important causes, but most of the time, there are several contributing factors at play.

### CONCLUSION

A company's stock price will increase if it announces an increase in interest rates, makes an acquisition, enters a new market, or reveals other positive financial news. Similar, the business that must sell a portion of its stock, fire staff, or shut down branches will face financial difficulties or a decline in profits. Investors typically tend to sell these stocks out of concern that the shares' price would collapse or, worse yet, that the company may shut down, making the shares worthless. The value of stocks in the industries impacted by these announcements/events may also be impacted by changes in government policy and significant financial announcements like the yearly budget.

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**Received:** 28-Nov-2022, Manuscript No. GJCMP-22-21125; **Editor assigned:** 02-Dec-2022, PreQC No. GJCMP-22-21125 (PQ); **Reviewed:** 16-Dec-2022, QC No. GJCMP-22-21125; **Revised:** 23-Dec-2022, Manuscript No. GJCMP-22-21125 (R); **Published:** 30-Dec-2022, DOI: 10.35248/2319-7285.22.11.020.

**Citation:** Li J (2022) The Impact of the Stock Market's Growth and Decline. Global J Comm Manage Perspect. 11: 020.

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