



3.1.1 Bids and offers

Bid defines the price and quantity of the buy order placed by the buyers.

Offer (also known as ask) defines the price and quantity of the sell order placed by the sellers.

Consider the following example of bids and offers of Jet Airways at 10:25 AM on January 24th, 2018.

NSE	Normal	EQ	JETAIRWAYS	
26	7198	266.10	266.25	6154 5
12	3362	266.05	266.30	8622 9
60	8129	266.00	266.35	10 1
1	10	265.95	266.40	369 2
9	451	265.90	266.45	210 3
TBQ :	915385			594274 : TSQ

The above image is the Depth of Market (DOM) of Jet Airways when the last traded price was ₹266.25/-. The left side (blue color) you can see the details of bids and right side (in red) you can see the details of offers.

As you can see in the above image, there are buyers at different prices from less than and equal to ₹266.10/-. In the same way, we can see sellers at different prices greater than/ equal to ₹266.25/-.

Let's study the first data point of bids:



26	7198	266.10
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- **26** represents the total number of orders at price ₹**266.10/-**.
- **7198** represents the total number of shares that buyers are ready to buy at ₹**266.10/-**.

In the same way, let's study the first data point of offers

266.25	6154	5
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5 represents the total number of sellers at the price ₹**266.25/-**.

6154 represents the total number of shares available to sell at the price ₹**266.25/-**.

The bids and offers represent the supply and demand of stock at different price levels. This supply, demand changes every millisecond and new orders enter the market at every point in time.

This is the reason why the stock prices fluctuate all day.

Consider the following chart to understand how the price of **Jet Airways** moved on **January 24th**. This chart shows the movements in Jet Airways from the opening of normal trading hours at 9:15 AM IST till the close of the market.



The jet airways opened the day at ₹266/-, declined to ₹263/-, went as high as ₹275.95/- and closed the day at ₹265.85/-. This shows how dynamic a stock price could be on a trading day.

This is due to the constant entry of new market players over the day, the change of supply and demand, market sentiment.

3.1.2 Equilibrium Price

The equilibrium price is the price at which the trade takes place. This equilibrium price is created at every second in the market when demand and supply balances at that moment.

Let's considered the same example we have used above to understand this concept better.



NSE	Normal	EQ	JETAIRWAYS	
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You can see the bids and offers at different price levels in the above image.

Let's say you want to buy 15,000 stocks. If you place the order of 15,000 shares at let's say ₹265.95/-, you will not be allocated 15,000 shares right away. Instead, you will get 15,00 shares at ₹265.95/- whenever equilibrium price reaches ₹265.95/-.

Instead of placing bids at ₹265.95/-, if you just place a market buy order, the system will right away buy 15,000 shares at whatever prices available.

In our case, the system will buy 6,154 shares at ₹266.25/-, 8622 shares at ₹266.30/-, 10 shares at ₹266.35/- and 222 shares at ₹266.4/-.



This will suddenly increase the price from ₹266.10/- to ₹266.4/- . This will create disturbance in buying and selling balance. If the buyers didn't place bids above ₹266.10/-, the price will come back from ₹266.4/- to ₹266.10/- in order to retain its equilibrium.

Instead, after the spike to ₹266.4/-, if buyers also shifted their bids till ₹266.35/-, a new equilibrium price will be established.

This is how supply and demand move the stock prices through bids and offers. Studying the bids and offers of stocks at different prices will indicate the strength of supply and demand over the trading day.

To study the supply and demand for a stock at different prices over a longer span than days such as weeks and month, we have to study the stock volumes.

If a stock is raising and the volumes are going up simultaneously, we can conclude that the demand for the stock is increasing. In the same way, if a stock is falling and the volumes are increasing, we can conclude that the supply for the stock is increasing.

To understand more about how supply and demand are created, let's study the market forces that create the supply and demand.

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