



**DISCORD: INSTITUTIONAL\_SCALPER (friend request)**

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# INTRODUCTION TO BIDS & OFFERS

**In trading, "bids" and "offers" (also known as "asks") are fundamental concepts that represent the buy and sell sides of the market, respectively. Here's a detailed definition and explanation of both terms:**

## **1. Bids**

- **Definition** A bid is the highest price that a buyer is willing to pay for a security, asset, or financial instrument at a given moment.

- **Market Depth:** The bid price, along with the quantity the buyer is willing to purchase at that price, contributes to the market depth. Multiple bids at different prices show the level of demand in the market.

- **Bid Size:** This refers to the amount of the security that buyers are willing to purchase at the bid price. For example, if the bid is \$50 for 100 shares, it means a buyer is willing to buy 100 shares at \$50 each.

- **Bid-Ask Spread:** The difference between the highest bid price and the lowest offer price (ask) in the market. A narrow spread typically indicates a highly liquid market, while a wide spread suggests lower liquidity.

## **2. Offers (Asks)**

- **Definition:** An offer (or ask) is the lowest price at which a seller is willing to sell a security, asset, or financial instrument at a given moment.

- **Market Depth:** The ask price, along with the quantity the seller is willing to sell at that price, also contributes to the market depth. Multiple asks at different prices show the level of supply in the market.

- **Ask Size:** This refers to the amount of the security that sellers are willing to sell at the ask price. For example, if the ask is \$51 for 200 shares, it means a seller is willing to sell 200 shares at \$51 each.

- **Bid-Ask Spread:** The spread between the bid and ask prices is a key indicator of market liquidity and transaction cost. Traders often look at the spread to determine the best time to enter or exit a position.

## Key Concepts and Applications

### 1. Order Book

- **Structure:** The order book is a list of all the current bids and asks in the market, organized by price level. It shows the number of shares (or contracts) available at each price point.

- **Transparency:** Viewing the order book provides transparency about market demand and supply, helping traders make informed decisions.

### 2. Market Orders vs. Limit Orders

- **Market Order:** An order to buy or sell immediately at the best available price. A market buy order will match with the lowest ask, while a market sell order will match with the highest bid.

- **Limit Order:** An order to buy or sell at a specified price or better. A limit buy order will be executed at the bid price or lower, and a limit sell order will be executed at the ask price or higher.

### 3. Price Discovery

- **Role of Bids and Asks:** Bids and offers play a crucial role in price discovery, which is the process of determining the price of a security based on supply and demand dynamics.

- **Equilibrium Price:** The market price of a security often moves towards an equilibrium where the quantity demanded by buyers equals the quantity supplied by sellers.

## Practical Example

Consider a stock with the following bid and ask prices in its order book:

### - **Bid Prices:**

- \$50.00 for 100 shares
- \$49.75 for 150 shares
- \$49.50 for 200 shares

**- Ask Prices:**

- \$51.00 for 200 shares
- \$51.25 for 150 shares
- \$51.50 for 100 shares

If a trader wants to buy the stock immediately, they would place a market buy order, which would be executed at the lowest ask price of \$51.00 for up to 200 shares. Conversely, if a trader wants to sell immediately, they would place a market sell order, which would be executed at the highest bid price of \$50.00 for up to 100 shares.

**Conclusion**

In trading, bids and offers (asks) are essential components that represent the demand and supply sides of the market, respectively. Understanding these concepts is crucial for effective trading, as they influence price discovery, market liquidity, and the execution of buy and sell orders. The bid-ask spread is a critical indicator of market conditions, helping traders assess the cost and ease of entering or exiting positions.