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METHODS OF ASSESSING THE LEVEL OF MARKET CAPITALIZATION OF JOINT-STOCK COMPANIES: ECONOMIC AND MANAGERIAL ASPECT

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Introduction. Effective assessment of the market capitalization of public joint-stock companies is an important strategic aspect that determines the level of corporate governance, competitiveness of manufactured goods or services, investment attractiveness, publicity, and transparency of the company in the stock market. In this regard, there is a need to study the advantages of various methods of market capitalization assessment, which will ensure not only the determination of the effectiveness of the corporate and financial activities of domestic joint-stock companies but also the investment value at the state level, ensuring the strategic necessity of satisfying social needs.

Aim and tasks. It consists in researching current methods of assessing the market capitalization of public joint-stock companies and proposing new ones for the purpose of a more comprehensive analysis of the company's activity at the stock market.

Results. The peculiarity of legal management and regulation of the market capitalization of Ukrainian public joint-stock companies is determined; the methods of assessing the market capitalization of joint-stock companies and the goals set by the entities that apply it in the evaluation are distinguished, namely: the method of the current market value of a public joint-stock company, the method of the average market value of a joint-stock company and the method of the maximum market capitalization of a joint-stock company. Ensuring the legality of market capitalization assessment, was carried out. A factor method of market capitalization assessment and a comparative method have been developed for the purpose of a more thorough assessment. It consists in presenting the author's approach to assessing the level of market capitalization through the use of comparative and factor approaches, which include not only an assessment of the market position of a joint-stock company at the stock market, but also individual balance indicators at the beginning of various reporting periods, establishing transparency and competitiveness.

Conclusions. The proposed research results will be useful for a comprehensive assessment of not only the financial, stock and marketing strategy of a public joint-stock company at the stock market, but to ensure its own competitiveness, liquidity and investment attractiveness, take into account factors affecting the comprehensive business, investment and financial position of a joint-stock company.

Keywords: management, market capitalization, stock market, share, emission activity.

Introduction.

Effective assessment of the market capitalization of public joint-stock companies is an important strategic aspect that determines the level of corporate governance, competitiveness of manufactured goods or services, investment attractiveness, publicity, and transparency of the company in the stock market. Market capitalization is an indicator not only of successful financial and investment activity, but also of a joint-stock company's marketing positioning and branding on both the domestic and international stock markets. Nowadays, world practice uses equal methods of assessing the level of capitalization; these methods are based on determining the market value of assets, capital, corporate securities, and the brand of a joint-stock company in general.

However, in the Ukrainian stock market, the assessment of market capitalization is mostly an underestimated indicator of the value of joint-stock companies, their business reputation, and financial activity. The market capitalization is only used for the joint-stock company's listing position on the stock market and, in the case of a high price, for including the company in stock exchange indices (and the stock market in general).

In this regard, there is a need to study the advantages of various methods of market capitalization assessment, which will ensure not only the determination of the effectiveness of the corporate and financial activities of domestic joint-stock companies but also the investment value at the state level, ensuring the strategic necessity of satisfying social (commodity and product) needs.

Literature review.

In modern economic literature, a large number of approaches to assessing the market capitalization of domestic joint-stock companies, which are based on the value of shareholders (authorized capital), company profitability, book value, market price of shares, etc., have been analyzed. Among domestic scientists whose works are devoted to the issues of determining and evaluating the level of market capitalization of joint-stock companies include: Butuzova (2018), Zaderei (2017), Yemeljanov and Lesyk (2022), Shevchenko and Ohirko (2021).

Among the foreign colleagues who partially touched on the problem declared in the article is Gunawan and SE (2018), Nurhayati et al. (2021). For example, Kuvshinov and Zimmermann (2022) emphasize the study of long-term trends in the market capitalization of listed firms and their drivers, because, according to them, the unique advantage of focusing on listed companies is that we can obtain high-quality data, necessary to analyze the development of the corporate sector over very long periods of time in many countries. Also, considering issues of market power from different points of view, the role of market capitalization and intellectual capital in determining corporate investment decisions, the importance of stock markets that unite all parties to pool resources and increase economic activity were emphasized by Syverson (2019), Farooq et al. (2022), Azeem et al. (2022), Bazaluk et al. (2022).

In turn, such scientists as Bengtsson and Waldenström (2018), Chodorow-Reich et al. (2021), Loecker et al. (2020), Farhi and François (2018), Fernando (2022), emphasize the relationship between the share of capital in the national income and the shares of the highest personal income, and also provide evidence of the consumption effect in the stock market, using the analysis of the local labor market.

At the same time, they emphasize the reduction of the share of labor, defending the thesis that the growth of market power, the growth of unmeasured intangible assets and the growth of the risk premium play a decisive role, in addition to the traditional reasons for increasing the supply of savings and slowing technological growth, etc. Finally, a strong case is made for the position that market capitalization is often used as a baseline for analysis, as all other financial metrics must be viewed through that prism.

After all, there are scholars who are convinced of the importance of considering the evolution of safe real rates in conjunction with three other stylized macroeconomic facts of the first order: the relative constancy of the real return on productive capital, the decline in the share of labor and the fall and stabilization of profits (Ricardo et al., 2017; Nitsenko et al., 2017).

Other researchers focused their attention: on the impact of market capitalization and fundamental factors on the value of manufacturing companies (Sari Permata and Alkaf, 2020); on the connection between capitalization of the stock market and financial growth in the countries of Western Europe (Alshubiri, 2021); on the effects of good corporate governance (GCG) on corporate value (Suhadak et al., 2019); on the impact of share capital on the results of companies (Dudycz, 2022); on the importance of companies and asset managers pursuing policies that match the preferences of their investors, and so on. However, the authors' research is based only on the assessment of the market rate of shares of public joint-stock companies and the total issue amount, the dynamics of the development of the country's stock market, not taking into account the legislative aspects of regulating the market capitalization of the Ukrainian stock market and public companies, and not determining the effectiveness of the approaches to evaluation used by companies in practice.

Methods.

Abstract analysis and generalization are used to distinguish methods of market capitalization assessment in modern scientific sources and legislative acts regulating the legality of assessments; systematic and comparative analysis is used to form approaches of comparative analysis of indicators of the basic and current indicators of share value; factor analysis is used to develop a more balanced method of assessment.

The aim and tasks.

The main goal is to research the effectiveness of methods and approaches to assessing the market capitalization of domestic joint-stock companies, taking into account the economic and legal aspects of the interaction of companies with stock exchanges and financial agents, as well as the influence

of factors on the competitiveness of shares that form the rating positions of the company at the Ukrainian stock market, as well as the development new assessment approaches to obtain a more effective assessment result.

Results.

The modern practice of researching the value of joint-stock companies is based on two main approaches. The first approach involves estimating the value of the company as the total value of all its assets and liabilities, or the enterprise as a property complex. However, such an approach is possible during the privatization of state property or during the process of liquidation of an enterprise, where the main task is the assessment of non-current assets.

The second approach is based on the assessment of the market value of the joint-stock company, which is based on the determination of the market price (demand price) for the shares issued and placed on the stock market by the joint-stock company. This approach is used not only in domestic, but also in international practice, and allows to assess not only the value of the capital of a joint-stock company, but also the level of: corporate governance, business activity, financial stability, investment attractiveness and competitiveness.

The assessment of the market value or, as it is also called in economic sources, the assessment of the market capitalization, depends on the entities that carry out the assessment and the goals of the assessment (Fig. 1). However, regardless of the subject, the assessment is based on a value-oriented approach to the circulation of shares of a joint-stock company at the stock market. At the same time, the listing procedure, the Initial Public Offering – the initial placement of securities on the stock market, as well as the market-making engagement system for additional issuance and a quick price premium are important.

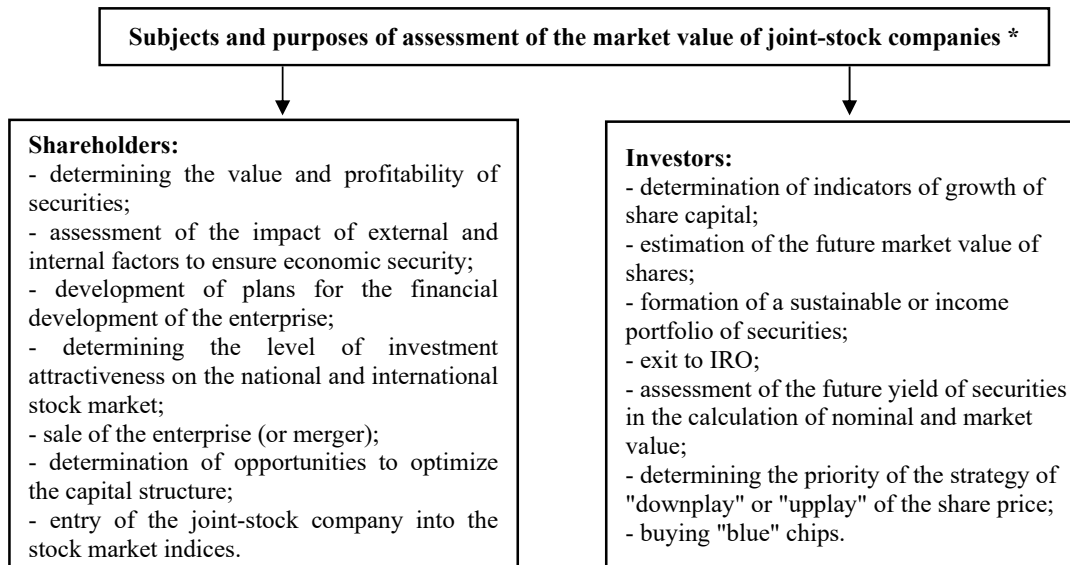


Fig. 1. Subjects and purposes of assessing the market value of joint-stock companies

Source: based on Butuzova (2018), Farhi and François (2018), Kuvshinov and Zimmermann (2022).

Market capitalization is an indicator of determining not only the value of a joint-stock company at the financial market, but also determines the effectiveness of corporate and marketing policies aimed at maximizing profits and meeting the social needs of the population. The market price of the share acts as a derivative indicator of the company's activity at the consumer market, which corresponds to the quality, needs, environmental friendliness, and reliability of the product sold at the market.

According to the subjective relationship to the market capitalization indicator, as an indicator of successful financial and investment activity, the emission and dividend policy of joint-stock companies is determined, the strategy of providing financial services is formed by professional market participants (in particular, related to shares), the directions of regulation and development of the stock market are determined by the National Securities and Stock Market Commission.

Legal regulation, establishing and assessment of the market capitalization of joint-stock companies are outlined in legislative acts that provide control in the sphere of activity of both joint-stock companies and stock markets and their financial agents. The Law of Ukraine "On Joint Stock Companies" (Verkhovna Rada of Ukraine, 2008) defines market capitalization as the market value of emission securities that

are in circulation in organized capital markets, calculated as the average rate for all trades that took place with securities:

$$P_{cap} = S_{course} \times Total\ number\ of\ shares \quad (1)$$

The exchange rate is calculated by the operator of the organized capital market - the stock exchange, for the last three months of circulation of such securities. If the securities are in circulation at two or more capital markets, the market capitalization is determined by the supervisory board of the joint-stock company, in accordance with the procedure established by the National Commission for Securities and the Stock Market. If, according to Article 8 of the law, it is not possible to determine the market value for the last three months (Yemelianov and Lesyk, 2022), the provisions of the Law of Ukraine "On Valuation of Property, Property Rights and Professional Appraisal Activities in Ukraine" are used, which establishes an independent appraisal that includes a period of more than three months (Verkhovna Rada of Ukraine, 2001).

In accordance with the Law of Ukraine "On Joint Stock Companies" (Verkhovna Rada of Ukraine, 2008) and in accordance with the requirements of the National Commission for Securities and the Stock Market, the assessment of the market capitalization of the company's shares cannot be carried out for shares that have

not passed at least one official auction at the Ukrainian stock exchange, or the manipulation of the exchange rate in favor of an increase has been proved for the Commission. It is also possible to involve an independent subject of evaluation activity by decision of the board of directors of a public joint-stock company or the supervisory board of a joint-stock company. However, the assessment is carried out only at the request of the shareholder whose total value of the shares in the authorized capital is not less than 5%, at his expense and publicly for placement in the report of the NCSSM.

This practice enables a more transparent and legally regulated circulation of shares at the stock market, taking into account the competitive environment of investment interest and the possibility of natural growth of the market rate.

Regulation of price demand for issued shares, their listing, public placement, purchase and sale of shares at organized commodity markets is carried out in accordance with the Law of Ukraine "On Capital Markets and Organized Commodity Markets" (2006), the Law of Ukraine "On State Regulation of the Securities Market in Ukraine" (1996). However, in practice, domestic joint-stock companies use three different methods when determining their own market capitalization:

1. The method of the current market value of a public joint-stock company involves the product of the total number of issued shares and the share price at the time of capitalization assessment (current day of assessment);

2. The method of the average market value of a joint-stock company, calculated as the product of the total issued number of shares and the average share price during the entire period of circulation (sale) of shares at the stock exchange;

3. The method of the maximum market capitalization of a joint-stock company, calculated by multiplying the total number of issued shares by the highest rate at which the share was sold at the stock exchange.

These methods are actively used in domestic and international market value assessment practice, however, the average market value method is key for joint-stock companies that carry out additional issuance on a permanent basis, or whose shares are constantly in

circulation at the stock exchange. The methods of current and maximum market capitalization are used by joint-stock companies and public corporations, if:

- only the initial issue and placement of shares on the stock market are carried out;
- additional issue of shares does not happen often, and shares are immediately bought by investors;
- sale, merger (or takeover) is planned;
- the owners determine the place of the company in the national and international rating: market value, investment attractiveness, business success, brand awareness;
- shareholders plan to evaluate the effectiveness of the issuance and investment policy during different periods.

Another method is discounted cash flow (DCF), which is based on estimating the value of an investment based on its expected future cash flows. However, it is used for the possibility of analyzing the forecast indicators of the value of the market capitalization in the future, assessing the possibility of increasing the invested portfolio capital.

$$DCF = \frac{CF_1^1}{1+r} + \frac{CF_2^2}{1+r} + \frac{CF_n^n}{1+r} \quad (2)$$

where, CF – cash flow for different periods;

r – discount rate;

n – the number of evaluation periods.

As noted by Zadrei (2017), international fund practices use the method of the market value of the company, which includes not only the total value of the issued shares, but also the value of all debt obligations, minus money and its equivalents:

$$EV = MCap + Prstocks + Debt - Cash \quad (3)$$

where, EV – the market value of the company;

Prstocks – market value of issued shares;

Debt – the market value of the company's total liabilities;

Cash – the sum of cash and cash equivalents on the valuation date.

The method of current market capitalization remains the most simplified and fastest method at international stock markets, which determines the market capitalization of joint-stock companies (corporations):

$$Cap_{market} = PRstd \times Wsh \quad (4)$$

where, Cap_{market} – current market capitalization;

$PRstd$ – the market price of one share on the current valuation day or the last day of quotation at the stock exchange;

Wsh – the number of shares issued by the joint-stock company.

$$\text{Diluted market capitalization} = \text{Current share price} * \text{Total number of shares allow} \quad (5)$$

This is a potential indicator of changes in the total number of shares that a joint-stock company wants or can issue in the future (Verkhovna Rada of Ukraine, 1996; Hart and Zingales, 2017; Fernando, 2022). The market capitalization indicator determines the effectiveness of the joint-stock company's emission and listing policy regarding the placement of shares on Ukrainian stock exchanges, including: "PJSC "First Stock

Trading System", PJSC "Ukrainian Exchange", PJSC "Ukrainian Interbank Currency Exchange", PJSC "Perspektiva Stock Exchange" (Ukrainian Exchange, 2022).

Thus, every month during 2021 joint-stock companies issue a significant amount of shares (Fig. 2), which increases the supply of equity securities and competition for the market rate.

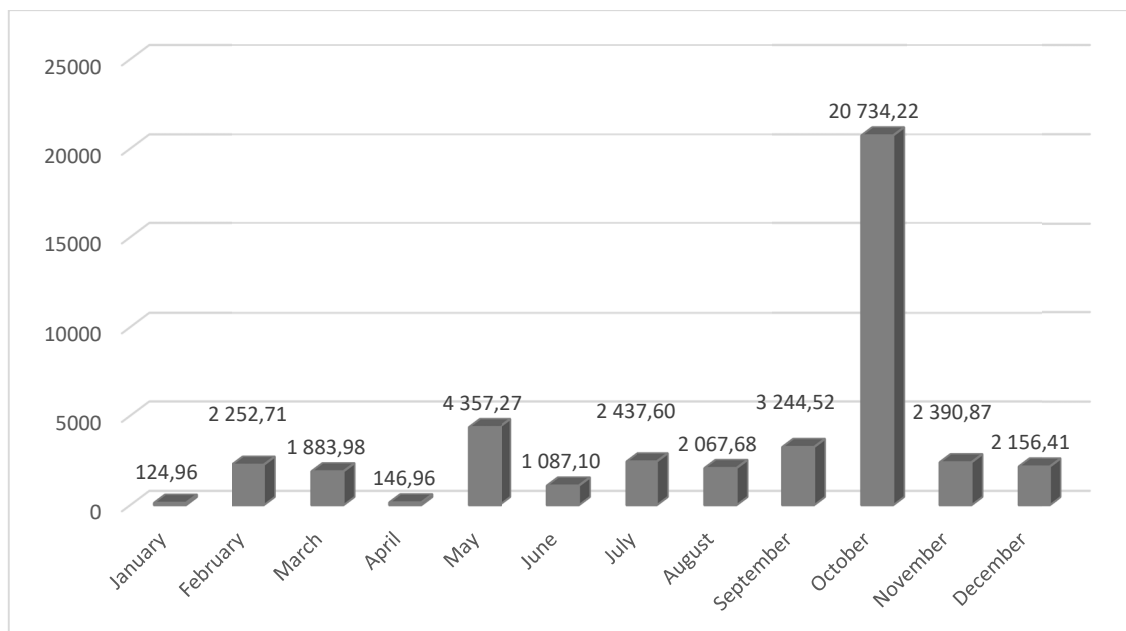


Fig. 2. Dynamics of share issuance during 2021, million hryvnias.

Source: based on National Commission on Securities and Stock Market (2022).

In order to determine the effectiveness of the assessment of the market capitalization of public joint-stock companies, in our opinion, it is worth proposing the capitalization ratio method. At the same time, the effectiveness of the policy of increasing the level of market capitalization will be determined by calculating the ratio of the number of issued shares and their nominal value (at the beginning of public market sales)

to all additional shares and the market rate of one share (after public trading and closing positions on the exchange):

$$\Delta ECap = (NRstd \times NVal) - (Wsh \times PRstd) \quad (6)$$

where, $\Delta ECap$ – the indicator for calculating the ratio of the capitalization indicator at the beginning of the placement of shares and at the market rate (as of the last date of the agreement);

NRstd – nominal price of one share;
NVal – the total number of the first issue of shares of the joint-stock company;

Wsh – the number of shares issued by the joint-stock company at the end of the calculation period (or the date of the market capitalization assessment);

PRstd – the market price of one share on the current valuation day or the last day of quotation on the stock exchange (National Commission on Securities and Stock Market, 2022).

The calculation of the capitalization ratio method will give the opportunity to evaluate for different periods: one year, three years, ten years, etc., and replace the nominal value of the shares with the market value depending on the evaluation period. In combination with stock charts (Figure 3), market capitalization management will ensure the development of effective methods of financial, marketing, stock exchange, socially oriented and qualitative development of the company, and the attraction of new investors and partners (Verkhovna Rada of Ukraine, 2006).

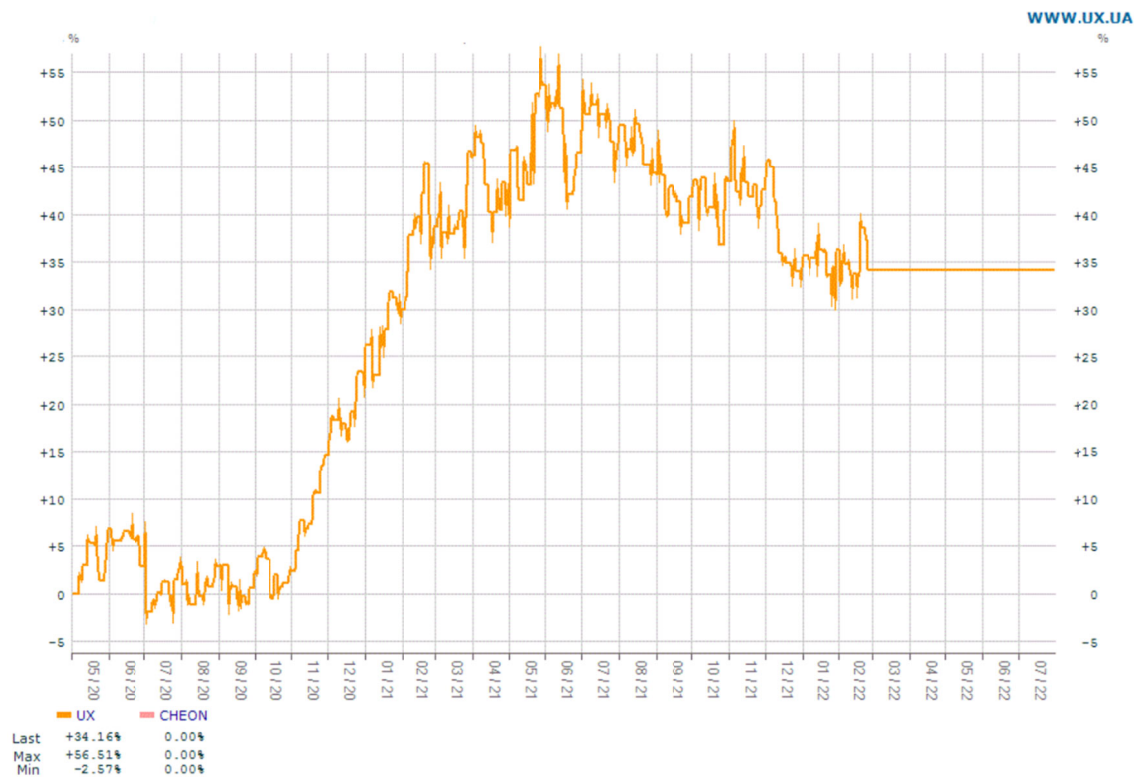


Fig. 3. Graph of dynamics of exchange instruments.

Source: based on Ukrainian Exchange (2022).

Also, it is worth noting that modern domestic joint-stock companies in the evaluation process must take into account three components that will affect the market value:

1. Book value of tangible assets, with the aim of:

- assessment of financial status indicators;
- calculation of forecast indicators for potential investors, creditors or financial partners of the joint-stock company;

- calculating the sufficiency of own resources and determining the need for engaged or borrowed resources;

- comparison (if forecasting is needed) of profitability.

2. Collective issue of shares, which is based on:

- number of issued shares;
- nominal and market value of the share (with further comparison);
- dividend policy of the joint-stock company;

- type of issued share (ordinary or preferred, which affects its subsequent demand at the stock market).

3. "Brand-facing" of the activities of the joint-stock company:

- quality, exclusivity of the trademark, cost of goods produced and sold by the company;

- cost of advertising campaigns;

- involvement of celebrities in cooperation, creation of joint projects, "collaborations" or collections;

- joint projects, developments or implementation of innovative developments;

- creation of a new product or technology.

Taking into account the three components make it possible to propose a factor method of assessing the market capitalization of joint-stock companies, which will provide a complex assessment of the main components of the activity of a public joint-stock company at the

commodity and stock market. To do this, we will form the main components:

1) nominal price of a share (*NP*), which can be changed to the market price of the base period during the evaluation process;

2) market price of a share (*MP*) – the market price of the last transactions on the stock exchange, or the price at the time of market capitalization assessment, taking into account the proposed method;

3) the number of shares of the joint-stock company (*NA0*) at the beginning of the issue (going through the listing procedure) and on the valuation date (*NA1*) (taking into account all additional issues);

4) book value of non-current assets (*NNA*) on the day of market capitalization assessment;

5) the amount of net profit of the joint-stock company (*CV*) from the last reporting period (balance sheet):

$$\Delta ECap0 = (NP \times NA0) + NNA0 + CV0$$

$$\Delta ECap1 = (MP \times NA1) + NNA1 + CV1$$

$$\Delta ECapF = \Delta ECap1 - \Delta ECap0$$

The ratio of two values for different periods of time shows not only the efficiency of activity and placement of securities on the stock market, but also enables a more grouped assessment of the efficiency of the joint-stock company. If necessary, the factor analysis can

be supplemented with capital investments, the amount of insurance funds or reserve funds.

At the same time, the companies with the highest market capitalization rating form the stock exchange index (Table 1), as an example, the Ukrainian Stock Exchange.

Table 1. Shares of large companies in the index of the Ukrainian Stock Exchange.

№	Code	Name	Number of shares in circulation	Coefficient that takes into account free-float (<i>Wi</i>)	Coefficient limiting the weight of shares (<i>Ci</i>)
1	BAVL	Raiffeisen Bank	61495162 580	2%	1
2	CEEN	Centerenergo	369 407 108	22%	1
3	DOEN	Donbasenergo	23 644 301	14%	1
4	KER	Kernel Holding S.A.	84 031 230	54%	1
5	KVBZ	Kryukiv Carriage Building Plant	114 679 552	5%	1
6	MHPC	MHP SE	107 038 208	40%	0.1475085
7	TATM	Ukrenergomashyn	422 496 520	3.5%	1

Source: based on Ukrainian Exchange (2022).

Such inclusion in the rating makes the company investment-reliable and competitive for investors, and the system of including shares provides high exchange rates and opportunities for financial cooperation.

In the international practice of developing the stock market and establishing the market capitalization of corporations and joint-stock companies, a component factor is the possibility of increasing the sale price of the company (and/or absorption, consolidation) by increasing the share price at the market. Another factor is to increase the value of manufactured or produced goods and to increase the market value of the company on this basis.

According to market capitalization, companies in the United States of America are divided into three main groups:

- with large capitalization (these are companies with a market value of USD 10 billion or more);

- with medium capitalization (these are companies whose market value is from 2 to 10 billion dollars);

- with small capitalization (these are companies whose market value is from USD 300 million to USD 2 billion).

As investors note, the most attractive and risk-free investments are in the most expensive companies, as well as the possibility of safe storage of funds to counter inflationary depreciation. Therefore, in our opinion, it is worth applying the rating system for domestic joint-stock companies, which in the future will make it possible to:

- establish transparent competition between public joint-stock companies issuing shares (both common and preferred);

- compare the quality of the company's corporate management, emission and dividend strategy, indicators of financial activity, etc.;

- develop the stock market functioning mechanism: issuers, investors, professional market participants, etc.;

- to introduce international standards of securities trading and in the future to allow

Ukrainian companies entering international stock exchanges;

- to improve the legal framework regarding the assessment of the market value of shares, a joint-stock company, the indicators of the purchase or sale of the company at the market rate, the placement of individual activity and cooperation data on the stock market;

- to create diversified investment portfolios for investors depending on the investment strategy;

- attract funds from investors for innovative development;

- to improve the image of Ukrainian enterprises and financial instruments, etc.

Therefore, the market capitalization of a joint-stock company is not just an indicator of the market value of its shares at the stock market, but is a stimulating mechanism for improving the entire economic and financial component of the country's financial market.

Conclusions.

On the basis of the results of the conducted research, it can be concluded that when choosing a method of assessing the market capitalization of joint-stock companies at the national and international levels, it is important to determine the goals of assessing the market value, while it is important that each of the methods is complementary, and allows to obtain more thorough and comprehensive results. The following methods of assessing the market capitalization of joint-stock companies are used in modern stock markets: the method of the current market value of a public joint-stock company, the method of the average market value of a joint-stock company and the method of the maximum market capitalization of a joint-stock company. Also the suggested directions of assessment by the ratio of capitalization at the beginning of the issue, the date of assessment and the factor method of assessment of market capitalization, which will allow for a more comprehensive assessment of the value of a public company, have been proposed.

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