

5.3: Par Value vs. Book Value vs. Market Value

Par Value

The face value of each share of stock is stated on the stock's charter. The only time this is a meaningful number is when the stock is initially sold for less than par value (which almost never happens). In this case, shareholders are liable for the difference in the event of bankruptcy. In today's markets, newly issued common stocks often are issued with either no par value or a par value of \$0.01. For example, a recent IPO by food delivery company [Blue Apron had a par value of \\$0.0001 per share](#). Note that this discussion is focused on common stock. Par value for preferred stock is very different as the dividend is often based on par value for preferred.

Book Value

$$\text{Book Value} = \frac{\text{Book Value of Assets} - \text{Book Value of Liabilities}}{\text{Number of Outstanding Shares}}$$

This tells us how much each share is worth on an accounting basis. The book value tends to understate the true value of a stock because the balance sheet focuses on historical value and (in most cases) omits the value of intangible assets (such as brand names, intellectual property, etc.) Also, historical value (purchase price less accumulated depreciation) does not factor in either the magnitude or riskiness of the expected cash flows those assets may generate.

Market Value

This is the most important measure of share value. It is the price at which you can buy or sell a share of stock. To get the market value of a stock at any time, you can use one of the many free stock quote services found online. One that we use frequently is [Yahoo! Finance](#). When you look up a stock quote, you will need to use a ticker symbol. However, just start typing the name of the company in the quote box and (assuming it is a publicly traded company) the ticker symbol will show up on a list below. This is the value that we as managers are trying to maximize.

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