

LESSON 1

WHY STUDY THE STOCK MARKET?

INTRODUCTION

This lesson is designed to spark student interest in the stock market and help the teacher learn what students already know or believe about the stock market.

ECONOMICS BACKGROUND

Stock markets allow people to use their savings to buy stocks. People who buy stocks do so hoping that the stocks will increase in value, thus making their savings grow. All investment decisions involve some risk, however, and people buying stock must also consider that their stock might not increase in value. Stock markets are important to nearly everyone. Because they affect so many people, they are regulated by the federal government even though they are private institutions.

LANGUAGE OF ECONOMICS

Economize: To base decisions on an assessment of costs and benefits, choosing the best combination of costs and benefits among the alternatives.

Risk: The chance of losing money. Risk is the opposite of safety.

Saving: Setting aside some of today's income for future spending.

Stock Market: A market in which the public trades stocks it already owns.

CROSS CURRICULUM SKILLS

Students develop skills in listening, reading, and group participation. They use computation to solve problems.

OBJECTIVES

1. Students demonstrate their current knowledge of and interest in stock markets.
2. Students decide how to invest a hypothetical inheritance of \$100,000, weighing the costs and benefits involved.

MATERIALS

- ◆ Visual 1
- ◆ Activities 1 and 2
- ◆ An 8½" x 11" piece of paper for each group, with a large "T" printed on one side and a large "F" printed on the other side. Another 8½" x 11" piece of paper for each group, with "Double Down" written on one side. Students use the paper to record their answers to the questions.

TIME REQUIRED

One class period

PROCEDURE

- A. Explain that the purpose of this lesson is to find out from the students what they already know about the stock market, to correct some common misconceptions, and to introduce students to some of the risks involved in deciding how to use savings.
- B. Divide the class into groups of three. To each group, distribute one sheet of paper with a "T" on one side and an "F" on the other, and one sheet with "Double Down" written on it. Distribute Activity 1, *Your Stock Market IQ Score Sheet*, to each student.
- C. Explain the rules for the Stock Market IQ test.
 1. Choose a spokesperson for each group.
 2. All students in the group have to tell the spokesperson what they think the right answers are for the questions on Visual 1.
 3. A group majority prevails whenever the group disagrees on what the right answer is.
 4. The spokesperson must hold up a small sign with either *true* or *false* printed on the sign to indicate the group's decision on the question. The spokesperson must also hold up the Double Down sign if the group wants to use this option.
 5. Each group gets five points for each correct answer. Each group loses five points for each incorrect answer.

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6. Each group can choose to double-down on any question up to a total of five questions. If the group answers correctly, it receives 10 points; if the group answers incorrectly, it loses 10 points from its current score. Groups use this tactic on questions they are most confident about answering correctly.
7. A total of 100 points is a perfect score. To earn this score, students must answer all questions correctly and double-down correctly on five questions.
- D. Any group able to achieve a score of 90 or more is rated Market Guru. Any group achieving a score between 70 and 89 is rated Market Analyst. Any group achieving a score between 50 and 69 is rated Market Novice. Groups scoring below 50 are rated Market Challenged.
- E. Display Visual 1, *A Stock Market IQ Quiz*, on the overhead projector. At first, keep all the questions covered. Show the students one question at a time so students do not see them all at once.
- F. For each question, ask students to decide in their group if they think the statement is true or false. Then the spokesperson holds up the True/False sign to show the group's decision to the class. The group should also hold up the Double Down sign if this strategy was chosen for this question. Make sure these sheets are raised simultaneously to discourage some students from waiting to see what other students have decided. The correct answers appear at the end of the teacher directions for this lesson.
- G. While students keep track of their scores, keep a point total on the chalkboard so that each group can see how it is performing relative to other groups. Groups will use this information to decide when to go Double Down.
- H. When the class completes the quiz, ask them to summarize what they have learned about the stock market while taking this quiz.
- I. 🎒 Distribute Activity 2, *Uncle Mort's Money*, and ask the students to read the story. In small groups, students should decide what they intend to do with Uncle Mort's money, weighing the costs and benefits involved. They will present their solution to the class.
- J. Ask students what Uncle Mort's story has to do with the statements in the Stock Market IQ test.
(Jody has to decide what to do with Mort's savings. If she understands how the stock market works, she may be able to keep the money safe and make it grow by purchasing stocks.)
- K. Ask students if there is risk if a person puts money in a bank or leaves it at home.
(Yes, each of these choices involves risk. Banks may not pay enough interest to compensate for changes in inflation; money left at home may be lost or stolen easily and does not earn interest.)

CLOSURE

Review the main points of the lesson:

1. Stock markets allow people to benefit from growth in private businesses.
2. No decision to save money is without cost or risk.

ASSESSMENT

Multiple Choice Questions

1. Which of the following decisions will guarantee that a person will make money in the stock market?
 - a. Buy the stock of a big company like IBM.
 - b. Buy the stock of a small company like Starbucks Coffee.
 - c. Purchase stocks after the stock market has dropped for two days in a row.
 - *d. None of these decisions will guarantee that an individual will make money in the stock market.
2. If a company starts purchasing its own stock, what are the company leaders attempting to do?
 - a. To raise company profits
 - b. To increase company expenses
 - *c. To show that the company believes the price is too low
 - d. To confuse the Securities and Exchange Commission

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ESSAY

👉 Imagine you hear someone make the following statement: “Stock prices mean nothing. Every day they change, up or down. It is just a way to cheat the public and take their money. I don’t understand why the government keeps changing those prices.” Based on what you have learned in this lesson, write this person a letter, commenting on his or her misunderstandings.

(Stock prices do change, but the government does not change them. Buyers and sellers of stocks cause the prices to change each day as they decide how valuable those stocks are to them. Changing stock prices show how people’s buying and selling decisions will change when they hear news that indicates how well this company is performing in the economy.)

JOURNAL

👉 Read the stock market section of the business page of a newspaper for three days. Identify five terms or ideas you do not understand which seem important to understanding how the stock market works. Share these unknowns with your classmates and teachers so everyone can help one another understand key ideas while learning about the stock market.

Answers to the Stock Market IQ Quiz

1. Stocks are items found in the store-room of a grocery store.

False. Stocks are shares of ownership of companies. These shares are sold to the public in markets around the world. The three largest stock markets in the United States are the American Stock Exchange, the Nasdaq Stock Market, and the New York Stock Exchange.

2. Only rich people invest in the stock market.

False. Millions of people invest in the stock market through mutual funds, individual purchases of stock, and pension investments. Very wealthy people make up only a small portion of stock market investor population.

3. Most stocks on the stock market are sold by the United States Government.

False. The United States Government does not sell stocks of private companies. These private company stocks are sold in stock markets like the AMEX, Nasdaq, and NYSE.

4. If the stock market goes up 30 percent one year, it will fall by 30 percent in the next year.

False. The prices of stocks on the stock market change as the supply and demand for stocks change. They can change at any rate, or prices can stay the same for a long time. How much they move up does not forecast how far they may fall. Over the long term, stocks have appreciated by 9 percent.

5. Any stock that goes up in price must eventually come back down.

False. Stock prices will usually not fall if the company remains successful and other investments do not become more attractive. Stock prices reflect the interest of investors. The law of gravity does not apply to stock prices.

6. Bears, Bulls, and Pigs are found in the stock market.

True. These names refer to people and their attitudes toward stock market performance. Bulls are people who think the market will continue to rise; Bears think stock prices are very likely to fall; Pigs are people who try to make a big killing on the market in a short time and tend to get “slaughtered”—in other words, they lose all their money on high-risk investments.

7. Stock prices are set by the Securities and Exchange Commission, a regulatory agency of the U.S. government.

False. Stock prices are set by the supply and demand for stocks. The Securities and Exchange Commission regulates the stock markets to insure honest practices are followed and accurate information is provided to buyers and sellers of stocks.

8. Stock markets are open on business days around the clock, around the world.

True. Stock markets exist in many different countries located in different time zones, so markets in Europe and Asia are open and in operation while U.S. citizens are sound asleep in their beds.

9. Sometimes companies buy their own stocks on the stock market.

True. A company for a variety of reasons may wish to have its stock price increase in value. One way a company might be able to increase the price of its stock is by buying its own stock.

10. It is hard to buy a good stock today because all the good ones have already been purchased.

False. All "good" stocks are available for sale in large quantities. Just because someone currently owns them does not prevent investors from buying the stocks. The new investor just must offer a price attractive enough so current owners have an incentive to sell their stocks.

11. Buying stocks is a sure way to make money.

False. The prices of stocks rise and fall, depending upon economic conditions and business success. Many people have lost money by buying stocks when the prices were high and selling them after prices fell. There is risk in the stock market. It is not a sure way of making money.

12. Corporations sell new issues of stock on the New York Stock Exchange.

False. New issues of stock are purchased by investment bankers (primary market) who will offer stocks to be resold to the public (secondary market).

13. "Insider" stock trading means that trading stocks takes place inside a building.

False. "Insider" stock trading refers to the

illegal practice of people related to a company who find out important information about a company that will affect the stock price and buy or sell the stock before the information is made available to the general public. An "insider" may be an accountant who knows that a company's profits are greater than anticipated by the public because that accountant just finished preparing the accounting report for the company. If that accountant buys stocks before the report is made, she or he could buy the stock at a lower price than what other buyers will have to pay after the report is made public. In such a case, she or he would illegally benefit from this "insider" information.

14. People can buy stocks on the Internet.

True. Many electronic methods exist that allow people to buy stocks without talking directly with a person. One method brokerage firms use is to allow people to buy stock with computers using the Internet (the electronic superhighway). It allows people to make trades quickly and inexpensively.

15. When the stock market goes up, it causes the economy to grow.

False. The stock market is a very small part of the economy. It cannot cause the economy to grow or decline. It is one leading indicator of the economy, so when the stock market goes up it does signal that many people think the economy will grow in the near future. Sometimes they are right, and sometimes they are wrong. The stock market cannot make people and companies in the economy improve their production of real goods and services.

VISUAL 1

A STOCK MARKET IQ QUIZ

1. Stocks are items found in the storeroom of a grocery store. T or F
2. Only rich people invest in the stock market. T or F
3. Most stocks on the stock market are sold by the United States Government. T or F
4. If the stock market goes up 30 percent one year, it will fall by 30 percent in the next year. T or F
5. Any stock that goes up in price must eventually come back down. T or F
6. Bears, Bulls, and Pigs are found in the stock market. T or F
7. Stock prices are set by the Securities and Exchange Commission, a regulatory agency of the U.S. government. T or F
8. Stock markets are open on business days around the clock, around the world. T or F
9. Sometimes companies buy their own stocks on the stock market. T or F
10. It is hard to buy a good stock today because all the good ones have already been purchased. T or F
11. Buying stocks is a sure way to make money. T or F
12. Corporations sell new issues of stock on the New York Stock Exchange. T or F
13. “Insider” stock trading means that trading stocks takes place inside a building. T or F
14. People can buy stocks on the Internet. T or F
15. When the stock market goes up, it causes the economy to grow. T or F

ACTIVITY 1

YOUR STOCK MARKET IQ SCORE SHEET

Name _____ Date _____

- | | | | |
|-----------------------------------|-------|--|-------|
| 1. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 2. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 3. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 4. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 5. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 6. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 7. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 8. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 9. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 10. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 11. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 12. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 13. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 14. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |
| 15. True or False
(circle one) | Score | (-5 or +5)
(double down -10 or +10) | _____ |

ACTIVITY 2

UNCLE MORT'S MONEY

Name _____ Date _____

Jody loved Uncle Mort. When Mort died, she missed him. It was only five years ago that Uncle Mort had bought a home two blocks away from her home. She visited him every day just to enjoy his company and to help him remember where things were. He was forgetful about everything except Jody. He forgot where he left his car keys, his eyeglasses, or the TV remote, but forgetting about money was the really big problem. He always left cash around the house. Jody would find dollar bills scattered around the house and give them back to Uncle Mort. “You should put this money in a safe place, Uncle Mort,” she would say. Uncle Mort would reply, “Jody, there is no safe place for money.”

Uncle Mort could not travel much. His lungs were bad. Jody asked her father why Uncle Mort had such health problems and why he was so forgetful. “It’s probably a result of the blow to the head he received in the Honduras demonstrations,” Jody’s father explained. “Your Uncle Mort has lived an interesting life. He was a brilliant student who dropped out of college to write educational software for schools. His specialty was economic fables and myths which became classics both in the computer software field and in children’s literature. He retired early—a wealthy man determined to help people in poor countries. For 20 years he worked in Latin America, helping farmers in Honduras and Colombia switch to profitable crops other than bananas and cocaine. Later he helped Brazilian Indian tribes sell Rain Forest products, before moving on to encourage Chinese government workers to set up their own businesses. In each country he got into trouble with authorities who didn’t like the changes. This trouble resulted in an occasional beating or prison stay, but he avoided even more trouble because he always carried cash, U.S. dollars. He used the money to pay people not to harm the poor people he worked with. He always carried U.S. dollars, and he never used banks.

After Uncle Mort’s death, Jody helped her father clean up Uncle Mort’s home and prepare it for sale. It was at that time she found out about Uncle Mort’s will. According to Dad, Uncle Mort left all his belongings to his brother, Jody’s father, except for the money in the house. Any money found in the house was Jody’s to use as she wished. In his will, Uncle Mort asked her to find a safe place for the money.

It took Jody and her father two days to clean Mort’s house completely. As they cleaned, they kept finding money in different places—\$100 in the cupboard, \$10 in the cookie jar, a bag of coins in the toilet tank. But the real discovery came when they took the mattress off the bed. Money fell out of a slit in the bottom of the mattress. When they gathered it all up, and added it together with the other money found earlier, the total came to \$100,000.

“Well, Jody,” her father asked, “what is the safe place where you are going to put the money?”

ACTIVITY 2 (CONTINUED)

Questions for Discussion

As a group, decide what you think Jody should do with the money. You can choose among the following alternatives. Discuss the potential costs and benefits of each.

	Costs	Benefits
• Buy five expensive Ford Mustangs, one for each school day of the week.		
• Put the money in a bank savings account.		
• Invest the money in IBM stock.		
• Put the money in Jody's mattress.		
• Other ideas?		

Prepare a chart that summarizes your thinking about the costs and benefits of each alternative. Make a short presentation to the class, explaining how you weighed the costs and benefits as shown on your chart. Conclude by stating your group's decision. Be prepared to answer questions.