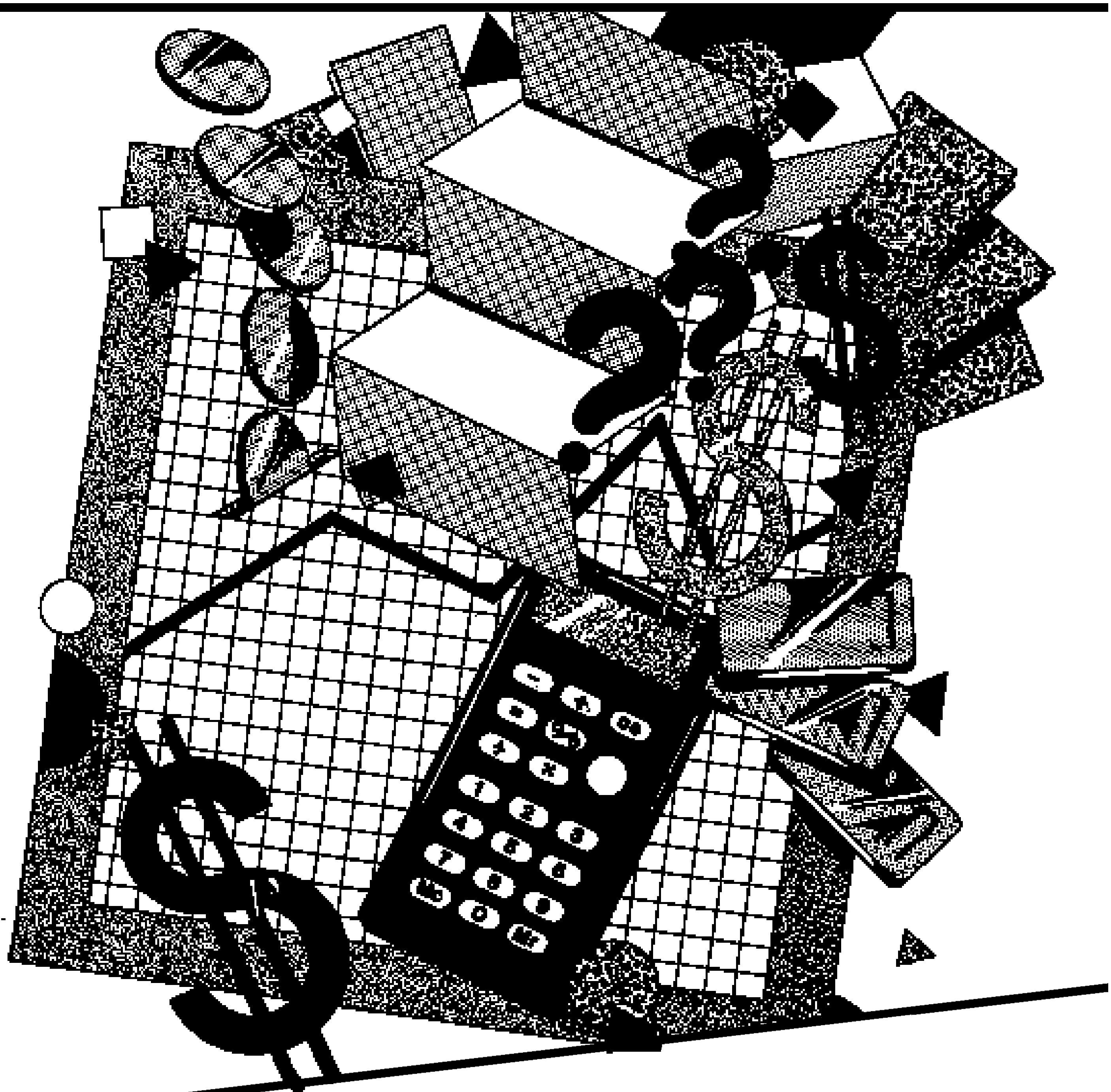
MARKETPLACE:
Explaining the Stock Market



Teacher's Guide

A video from Knowledge Unlimited®, Inc.

INTRODUCTION

The goal of the video MARKETPLACE: EXPLAINING THE STOCK MARKET and this teacher's guide is to encourage students to pay more attention to the stock market and its place in the economy. The video is meant to arouse interest in and provide an initial understanding of the nature of stocks and of the role stock trading plays in a modern industrial market economy. The teacher's guide provides a series of lessons that teach students to read and understand news about stocks, follow the progress of stock prices, recognize the factors that influence stock price trends, and understand the role of stock trading in the economy.

Learning Objectives

After viewing the video and completing the activities in this guide, students should be able to do the following:

1. Explain what stocks are and understand why stocks have been important in the development of the modern corporation
2. Understand how stocks are traded
3. Follow reports about stocks and stock trading in the financial pages of the newspaper
4. Understand that the general trend of stock prices can be influenced by many events and trends, both economic and political
5. Debate and make informed judgments about some of the important political and ethical issues associated with stock trading and its role in our society today.

Description of the Video and the Teacher's Guide

The Video

MARKETPLACE: EXPLAINING THE STOCK MARKET presents an introductory explanation of the nature and purpose of stocks and stock exchanges in a modern industrial economy. The video opens with a reenactment of the 1929 stock market crash and an explanation of its role in triggering the Great Depression. The aim is to make clear in a dramatic way the crucial role stocks play in our economy. The program then quickly describes the growth in size of businesses since the early 1800s and their ever-greater need for capital. To help explain how stock selling helped meet that need, the video gives a hypothetical example of a group of entrepreneurs setting up a corporation and selling stock to help it grow. Next, the program traces the emergence of stock exchanges and explains how stock transactions take place. It looks at the history of the regulation of stock exchanges from 1929 until the aftermath of the stock market crash of October 1987. And it ends by considering the importance of stocks as a way to ensure mass participation in the control of our corporate economy.

The Guide

The teacher's guide consists of the following: 1) A brief introduction, stating goals and objectives; 2) A description of the video and guide; 3) The complete video script; 4) A Readiness Activity to be completed before viewing the video and four follow-up lessons to be completed after viewing it; 5) Four reproducible activity sheets that accompany the Readiness Activity and the first three lessons; 6) A brief list of additional resources.

Marketplace: Explaining the Stock Market

Video Script

Newscaster

This just in from our Wall Street correspondent: the New York Stock Exchange has suffered its worst crash in history today. There was pandemonium on the trading floor today as prices continued on a precipitous and steep drop. While financial leaders urged calm, insisting they had confidence in the soundness of the stock market, one broker said that no one was buying, that the bottom is falling out, and that he was ruined. By the end of the day, thousands of brokers and investors were in a state of shock.

Narrator

Black Tuesday, the worst day of the great stock market crash of 1929, was a turning point for the nation. Sixteen million shares of stock were traded that day — an all-time record. As stock prices plummeted, lights burned late on Wall Street, where the New York Stock Exchange is located. Bankers poured in billions of dollars to buy stocks and push prices up, but all to no avail. In the months to come, stock prices continued to fall. Between 1929 and 1932, the value of all New York Stock Exchange stocks dropped from $90 billion to less than $16 billion. And the stock market crash triggered a ten-year-long crisis of economic collapse and unemployment know as the Great Depression.

The crash of ’29 revealed as nothing else could the crucial importance of stocks and stock trading to the nation’s economy. But what caused the crash? Why was it so devastating? Could such a crash happen again? To answer these questions, you need to know more about stocks and stock markets, and that’s what we’re going to do in this program. We’re going to look at what stocks are, how stock markets work, and why stocks are crucial to our modern industrial economy.

What Are Stocks?

Until the 1800s, most businesses were small. The owners worked alone or hired a few workers to help them out. But beginning in the 1800s, the size of businesses began to grow. New sources of power: coal and steam; new forms of transportation: the railroad; hundreds of new inventions and power-driven machines — all these elements sparked an industrial revolution that made it possible for large factories to produce huge amounts of goods cheaply and to deliver them to markets all over the nation or the world. But to establish a large business, owners need large amounts of money. Money for buildings, equipment, energy, and to pay tens, hundreds, even thousands of workers. This need for money — for capital — led to the beginnings of what we now call the stock market.

To get the money it needs to grow, a small business owned by one or two people can form a corporation. In this example, a deliveryman, a grain merchant, and two bakers have combined their money, equipment, and skills to form a corporation called the ABC Bakery. By combining their resources, these new owners create a corporation worth $50,000.

Once a corporation is formed, it can sell shares of “stock,” which represent a part ownership in the business. This sale helps to raise even more money for new equipment, buildings, and more employees.

A share of stock is simply a piece of paper giving someone a share of ownership in a company.

Suppose the new owners of the ABC Bakery want to raise an extra $150,000. They can do this by selling 15,000 shares of stock to other people at $10 a share.

At $10 a share, the original owners’ $50,000 came to 5,000 shares of stock. By selling 15,000 more shares, the corporation raises another $150,000. With a total of 20,000 shares now, each share stands for one twenty-thousandth of the ABC corporation.

Stock shares can be bought and sold. Anyone buying one share owns a part of the ABC corporation. This ability to sell shares gives the corporation a big advantage in raising the money, or capital, it needs to grow.

How Do Stock Markets Work?

In a so-called closed corporation, only a limited number of shareholders are allowed. But let’s focus our discussion on “public” corporations. These are companies from which anyone can buy stock and become a shareholder. But how does a person go about buying stocks? That’s where stock markets, or stock exchanges, come in.

In the early 1800s, New York’s Wall Street became the nation’s center for trading stocks. At first, business deals were made out in the street. Careful records were rarely kept. Shareholders traded stocks directly with one another or through agents called brokers. A broker is a middleman who works for a company that buys and sells stock for the public. But shareholders with stocks to sell couldn’t always be sure of finding buyers. To solve this problem, brokers set up the stock exchange on Wall Street.

The first stock exchange in North America was organized under a buttonwood tree on Wall Street, the first site of the New York Stock Exchange. In time, other stock exchanges were set up in many large cities.

But not all corporations listed their stock at a stock exchange. These stocks were sold by brokers directly to customers in so-called over-the-counter sales. Thousands of corporations still trade their stock in the over-the-counter market.

How the Sale Is Made

To see how a stock sale is made, let's say you decide to buy 100 shares of XYZ stock sold on an exchange. A broker will help you make your deal.

With computers, a broker can instantly find out what the XYZ stock's price was at its last sale — and also the bid, or highest price at which anyone will buy it, and the lowest price at which anyone will sell it. This helps you decide whether or not to buy the stock.

The order to buy is wired to the broker's representative on the exchange. He then goes to the XYZ corporation's trading post on the exchange floor to begin bargaining with other brokers. The brokers bargain until a bid and an offer meet and a sale is made. Seconds after the sale is reported, it flashes across the boards and onto computer screens in stockbrokers' offices throughout the world.

Why People Buy Stocks

Many experts say that to "buy low and sell high" is the secret to successful stock investing. This means buy stock at a low price and sell it at a high price. A stockholder increases the capital he invests in a stock when he sells it at a higher price than he paid for it. The extra money earned is called capital gains. The desire for capital gains is the main reason some people invest in stocks.

But others buy the stocks mainly to earn stock dividends. A corporation can use its profits to buy new equipment and hire more workers. It also can divide up some profits among the stockholders. Such divided-up profits are called dividends. Many stockholders are more interested in big dividends than in capital gains.

Following the Market

People who follow baseball scores generally understand the sport and its special language. People who follow the stock market also need to know something about how it works and its special language. And people who follow the stock market usually do so because they have money invested there and want to know how their investments are doing. For example, what the price of the stock is on a given day or what kind of dividend might be announced are factors that directly affect the investor's pocketbook.

Almost any kind of economic news can affect stock prices. As with any product, when demand for a stock is high, its price rises. When demand is low, the price falls. The term "bull market" means stock prices are rising. In a so-called bear market, prices are falling.

Stock prices listed in the business section of the newspaper are written in whole numbers and fractions — for example, 24 1/4 instead of 24 dollars and 25 cents. And changes in stock prices are reported in so-called points, with one point equalling one dollar. Stock listings usually report the highest, lowest, and closing prices for stocks on an exchange. This is a previous day's closing price, which shows how much the stock's price changed that day.

Several indexes measure groups of stock to see how well stocks in general are doing. For example, the Dow Jones Industrial Average shows the trend of stock prices of 30 large industrial companies.

The Need for Regulation

During the "boom" of the 1920s, millions of Americans bought stock. This huge and growing demand pushed stock prices up and up. Buying stocks seemed a sure way to get rich quick.

But millions had to borrow money to buy stock. This was called buying stock on "margin." Often, a buyer paid for only 10 percent of the stock and borrowed the other 90 percent. The buyer would have to give up the stocks if he or she couldn't pay back what was borrowed quickly. As long as stock prices went up, buying on margin worked well. Stockholders could always sell their higher-priced stock and easily pay back their loans.

But in October 1929, people suddenly panicked about the high-priced stocks they held. When huge numbers rushed to sell but no one was buying, prices tumbled. Investors had to sell at a huge loss. Millions lost their savings. A decade of hard times began.

The crash of 1929 led to stricter regulation of stocks and stock exchanges. A 1933 law required corporations to tell the public important facts about their stocks and to advertise them honestly. A 1934 law limited the amount of stock that could be bought on margin. It also made it illegal to secretly and dishonestly force stock prices up or down.

And the law created the Securities and Exchange Commission, or SEC, which now watches over the daily activities of the stock exchange. Corporations and brokers who trade on exchanges must meet many strict requirements. But not all the problems have been solved.

In 1987, a sudden, steep drop in stock prices reminded many people of the crash of 1929. But this time, the market recovered quickly. The 1987 drop revealed a number of problems.

Some experts said the use of computers in so-called program trading sped up trading and, at times, pushed it out of control. Others said the 1980s were a time of greed and that rules meant to keep stock trading honest had not been enforced strictly enough. "Insider trading" scandals rocked the financial world in these years. Insider trading is the use of secret information about companies to give certain people unfair advantages over others in buying or selling stocks. But in the wake of the 1987 crash, major efforts at reform were undertaken.

Today, millions of Americans own shares of stock. "Institutional buyers," such as pension funds, own huge amounts of stock. A pension fund is an amount of money that groups of workers and employers set aside for workers to use after they retire. A pension fund's officials often use this money to buy stocks to make the pension fund grow.

Pension funds belong to millions of workers. And so, these workers have become stockholders in many of America's largest corporations. Stockholders actually own the corporation, though they rarely operate the business themselves. Instead, they usually vote for a board of directors. The board then hires the officers who run it from day to day. But shareholders — and this means millions of citizens — do have a stake, and a say, in running our huge industrial economy.

Buying shares of stock is, and has been in the past, a sign of confidence in the future. Stockholders have to believe that corporations will grow in the future. And when they buy stocks, they're helping those corporations — and the entire economy — to do just that.

A Readiness Activity

Understanding the Language of the Market

(Do this activity before viewing the video.)

Objective: To arouse interest in the stock market and better enable students to understand the terms, explanations, and historical references in the video.

*Use the **Readiness Activity Sheet** (page 9)*

1. Split your class into four or five small groups.

2. Hand out the **Readiness Activity Sheet**, which contains a list of terms and vocabulary words. Assign each group three of the terms or words on the sheet.

3. Give the groups about 15 minutes to discuss the terms and agree on definitions. Ask one person in each group to act as secretary and record the group's definition for each term in one or two sentences.

4. Have the secretaries read their definitions aloud, and discuss them as a class. Try to supply more accurate definitions where necessary. Then tell your students that they will be viewing a video about the stock market that will make use of and expand on the terms on their lists.

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Readiness Activity Sheet

Understanding the Language of the Market

In a small group, discuss the terms you were assigned from the list below. Have one member of your group act as secretary and record a definition your group agrees on for each term in the space provided.

corporation

stock

stock exchange

broker

dividend

capital gains

bull market

bear market

the crash of ’29

the Great Depression

insider trading

Wall Street

Black Tuesday

buying on margin

pension funds

Lesson 1 Playing the Stock Market

Objective: To help students understand the basic judgments involved in "playing" the stock market.

*Use **Activity Sheet for Lesson 1** (page 11)*

1. Pass out copies of the stock listings in the financial section of the newspaper. Review the information presented in the video to find out how newspapers record the high price, low price, closing price, and net change in the price of a share of stock.

2. Show students how to tell if a stock's price has gone up, down, or remained the same from one day to the next.

3. Explain what capital gains are. Using some stock price changes in recent days, give examples of capital gains that might have been realized from the purchase and sale of certain stocks.

4. Pass out **Activity Sheet for Lesson 1** and ask students to read the instructions on the activity sheet carefully. Answer any questions they may have.

5. Have students complete the activity sheet over the course of the next week.

Activity Sheet For Lesson 1

Playing the Stock Market

It can be interesting and fun to learn how to "play" the stock market. Imagine that you have $10,000 to invest in stocks. Using the stock listings in your newspaper, select two corporations that have stock you want to buy. Invest $5,000 in each corporation by purchasing as many shares of that corporation's stock as you can at the current price. Each day for a week, list the closing prices of the stocks you chose. At the end of the week, compute the gain or loss for each stock. Sell all your stocks at the going price. Did you gain or lose money? How much? Which stock did better? What would have happened to your $10,000 if you had spent all of it on the stock that did the best?

Closing Price For	**Stock A** Name of company: ____________________	**Stock B** Name of company: ____________________
Monday		
Tuesday		
Wednesday		
Thursday		
Friday		
Gain or loss during the week		
Gain or loss on $5,000 investment during the week		

Lesson 2 Risk vs. Return

Objective: To help students better understand the trade-off an investor usually faces between risk and the potential size of the return on an investment. To enable students to understand the importance of information in stock trading and the uncertainty surrounding this economic activity.

*Use **Activity Sheet for Lesson 2** (page 13)*

1. Review with students the definitions of the following terms: corporate stock, savings account, interest, dividends, capital gains.

2. Discuss briefly the nature of the risk in stock trading — that there may be no dividends, that the price of stocks may rise or fall dramatically in short periods of time, etc.

3. Hand out copies of **Activity Sheet for Lesson 2** and go over the activity with students. Answer any quetsions they have. Especially make sure everyone understands the numbers involved and how they were calculated.

4. Have students complete the activity sheet. As a group, discuss the decisions they made.

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Activity Sheet For Lesson 2

Risk vs. Return

The challenge of trading stocks involves taking a risk in the hope of earning extra money, either from dividends or from capital gains. Before completing the following exercise, be sure you understand these terms: corporate stock, savings account, interest, dividends, capital gains.

Complete the following exercise:

You have been given $1,000. Now you must do one of the following three things with it:

1. Put it in a savings account at 5 percent interest per year. At the end of the year you will have an all-but-certain $1,050 dollars.

2. Buy the stock of a solid, dependable corporation that has been around for a long time. That corporation will pay a dividend of 6 to 8 percent. If the stock's price stays the same, you will be able to sell it at the end of the year for the same $1,000. You will also have made between $60 and $80 in dividends. However, there is a small chance the price of the stock will go down. Reports on the company show that to be unlikely, but there is no way to be certain. A 5 percent drop in the stock's price would reduce the value of the stock you own from the original $1,000 to $950. That's what you would get if you sold the stock — plus, of course, the $60 to $80 dividend you would earn.

3. Buy the stock of a new, rapidly growing corporation. The company seems to be doing well now, but not much is known about it. It is in a very competitive and new industry. In its first year, it only paid a 3 percent dividend ($30 on $1,000 of stock). However, the price of its stock went up 14 percent over the year. That means that $1,000 of its stock was worth $1,140 at the end of the year.

Your challenge is to decide what to do with your $1,000. On the other side of this sheet, or on a separate piece of paper, write a paragraph explaining what you would do and the reasons for your decision.

Lesson 3 Monitoring Market Trends

Objective: To enable students to discover that many outside factors can influence general trends in stock prices.

Use ***Activity Sheet for Lesson 3*** *(page 15)*

1. Discuss the Dow Jones industrial average and other indexes that measure trends in the stock market. Show the class graphs and stories in the newspaper that report changes in the indexes.

2. Using some examples, discuss the ways in which a wide variety of news events and trends can influence stock prices.

3. Hand out **Activity Sheet for Lesson 3**. Have students read the instructions on the activity sheet carefully. Then answer any questions they have.

4. Give students several weeks to complete their activity sheets.

5. Hold a class discussion analyzing market trends. Ask students to use their activity sheets to report, discuss, and attempt to explain their findings.

Marketplace: Explaining the Stock Market

Activity Sheet for Lesson 3

Monitoring Market Trends

Outside factors often influence the stock market. Watch the newspaper for news events that might cause changes in stock prices. Over the next few weeks, find one event in each of the four categories listed below that was followed by a jump or drop in stock prices. Use the Dow Jones industrial average to determine the size of the shift in stock prices.

1. A government report about unemployment
Date of report and summary

Change in the Dow Jones and date of change

2. A government report about interest rates
Date of report and summary

Change in the Dow Jones and date of change

3. A national political event
Date of report and summary

Change in the Dow Jones and date of change

4. An international political event
Date of report and summary

Change in the Dow Jones and date of change

Lesson 4 Ethics and the Market

Objective: To help students understand and discuss thoughtfully some of the most important ethical issues associated with stock markets and stock trading today.

(There is no activity sheet accompanying this lesson.)

In recent years, two figures, Ivan Boesky and Michael Milken, personified the problems of insider trading and a number of other ethical problems associated with stock trading. In this activity, students will look into these two controversial figures more closely.

1. Briefly describe the nature of the crimes each of these men committed.

2. Divide the class into four small groups. Explain that each group will be doing research on the activities of either Ivan Boesky or Michael Milken. Ivan Boesky was in the news in 1986. Michael Milken was in the news in 1989 and 1990. The Readers Guide to Periodical Literature should be a good source of information on the many articles on each of these men that were in the weekly news magazines in those years.

3. Assign two groups to do more research on Ivan Boesky. One group will prepare a case against Mr. Boeksy. The other will prepare his defense.

4. Assign two groups to do more research on Michael Milken. One group will prepare a case against Mr. Milken. The other will prepare his defense.

5. Hold two separate "trials," one for each of these individuals. In each case, have the portion of the class not involved in the defense or prosecution act as the jury and decide the fates of these men. Then have the entire class discuss the decisions the juries make.

Resources

Books

Dunnan, Nancy. *The Stock Market.* Englewood Cliffs, N.J.: Silver Burdett, 1990.

Rosenberg, Claude N., Jr. *Stock Market Primer: The Classic Guide to Investment Success for the Novice and the Expert.* (Rev. ed.) New York: Warner Books, 1987.

Sobel, Robert. *Inside Wall Street: Continuity and Change in the Financial District.* New York: Norton, 1977.

Teweles, Richard J., Edward S. Bradley, and Ted M. Teweles. *The Stock Market*. New York: Wiley, 1992.

Magazines

Business Week
Fortune
Inc.
Institutional Investor
Money

Newspapers

Barron's
The Wall Street Journal

Other

New York Stock Exchange, Visitors' Center, 20 Broad St. 3rd Floor, New York, NY 10005

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This teacher's guide accompanies the video *Marketplace: Explaining the Stock Market*.

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