Activity 20.1
The Language of Financial Markets: Definitions

AMEX: The acronym stands for American Stock Exchange, formerly an independent market but now part of the New York Stock Exchange; the AMEX's new name is NYSE Amex Equities.

Bond: A debt investment in which an investor lends money to an entity (corporate or governmental) that borrows the money for a defined period of time at an agreed interest rate. Bonds are used by companies, municipalities, states, and the U.S. and foreign governments to finance various projects and activities.

Broker: A professional trader who buys and sells stocks for individuals and institutional customers.

Buying on margin: Buying stock by paying only a percentage of the purchase price (typically 50 percent) and borrowing the balance from a broker. If the buyer can sell the stock at a higher price than she or he paid for it, the amount of the loan can be repaid (plus interest and commission) and the buyer can keep the profit. However, if the stock price falls, the buyer must repay the loan (plus interest and commission) and suffer a loss.

Capital gain: A profit realized from the sale of property, stocks, or other investments.

Commission: A percentage of a stock trade (a buy or sell) paid by a customer to a stockbroker.

Common stock: An ownership share or shares of ownership in a corporation. A common stock offers no guarantee that it will hold its value or pay dividends.

Dealer: Someone who buys and sells stocks from his or her own accounts or the accounts of the firm he or she represents. Some dealers also act as brokers.

Dividend: A share of a company's profits paid to shareholders.

Dow Jones Industrial Average (DJIA): Often referred to as "the Dow" or "the Dow Jones Average," it is one of the oldest and most commonly quoted measures of stock-market performance. The averages it reports are calculated by reference to 30 large, well-known firms.

Growth stock: The stock of a firm that is expected to do well—to have above-average increases in revenues and earnings. Growth stocks often pay no dividend, but the stockholder gains if the price of the stock increases (grows).

Income stock: A stock that pays dividends regularly.

Index fund: A mutual fund that seeks to match the composite investment performance of a large group of stocks or bonds such as those represented by the Standard & Poor's 500 Composite Stock Index.

Initial public offering (IPO): The first sale of stock by a private company to the public.

Institutional investor: An organization (an insurance company or pension fund, for example) that invests in the stock market for clients.

Investment bank: An institution that participates in the primary markets for the sale of newly issued stocks and corporate and government bonds.

Liquidity: The ease with which savings or investments can be turned into cash.

Mutual fund: A company that pools money from investors and uses it to buy stocks or bonds on the investors' behalf. Mutual funds provide diversification and professional management for investors.

NASDAQ Stock Market: Founded in 1971, this stock market is the world's largest in terms of trading volume. The NASDAQ is the home to many technology stocks, including Apple, eBay, Intel, and Yahoo!

New York Stock Exchange (NYSE): The oldest stock exchange in the United States, founded in 1792. Following a 2007 merger with the European stock exchange Euronext, the NYSE has been operated by a parent company, NYSE Euronext Inc.

Over-the-counter market (OTC): A network of securities dealers connected by a computer network to buy and sell stock without a centralized trading floor. The stocks often represent new companies, and the stock prices are relatively low.

Ponzi scheme: An investment fraud that holds no real assets, paying off existing investors by using funds from new investors.

Preferred stock: An ownership share in a corporation with a guaranteed dividend that is paid before any dividends are paid on common stock.

Price: The market value of anything being offered for sale.

Return (rate of return): Money earned from an investment. The money could be profits, interest, appreciation, or a combination of these.

Risk: The chance of losing money on an investment.

Short selling: A stock transaction that allows an investor to make money on a stock expected to fall in value. This transaction involves the immediate sale of shares not owned by the seller, who expects to buy them back later at a lower price.

S&P 500 Stock Index: The acronym stands for the Standard and Poor's 500 Stock Index. The index includes 500 large and varied stocks.

Stockholder: A person who owns stock; sometimes called a shareholder.

Stock split: The division of a firm's outstanding shares of stock into a higher number of shares. A stock split often occurs when the price of a stock is considered too high by a corporation. The purpose is to lower the price of the stock to attract more buyers.

Activity 20.2
Prompts and Correct Answers for Quiz Bowl Game (Reserved for Teacher Use)

(Note to the teacher: The boldface headings shown below correspond to column headings used on Slide 20. 3. Point values, also shown on Slide 20.3, are indicated here by the numbers preceding each listed item.)

Invest in This

10: A debt investment in which an investor lends money to an entity (corporate or governmental) that borrows the money for a defined period of time at an agreed rate of interest. **(Bond)**

20: An ownership share or shares of ownership in a corporation. **(Common stock)**

30: A company that pools money from investors and uses it to buy stocks or bonds on the investors' behalf. **(Mutual fund)**

40: The stock of a firm that is expected to do well—to have above-average increases in revenues and earnings. These stocks often pay no dividend, but the stockholder gains if the price of the stock increases. **(Growth stock)**

50: An ownership share in a corporation with a guaranteed dividend that is paid before any dividends are paid on common stock. **(Preferred stock)**

Potent Investments

10: Buying stock by paying only a percentage of the purchase price (typically 50 percent) and borrowing the balance from a broker. **(Buying on margin)**

20: A mutual fund whose objective is to match the composite investment performance of a large group of stocks or bonds such as those represented by the Standard & Poor's 500. **(Index fund)**

30: An investment fraud that holds no real assets, paying off existing investors by using funds from new investors. **(Ponzi scheme)**

40: The chance of losing money on an investment. **(Risk)**

50: A stock transaction that allows an investor to make money on a stock expected to fall in value. This transaction involves the immediate sale of shares not owned by the seller, who expects to buy them back later at a lower price. **(Short selling)**

Index or Exchange

10: The acronym stands for American Stock Exchange, formerly an independent market but now part of the New York Stock Exchange. **(AMEX)**

20: One of the oldest and most commonly quoted measures of stock-market performance. The averages it reports are calculated by reference to 30 large, well-known firms. **(Dow Jones Industrial Average)**

30: Founded in 1971, this stock market is the world's largest in terms of trading volume and is the home to many technology stocks including Apple, eBay, Intel, and Yahoo! **(NASDAQ Stock Market)**

40: The oldest stock exchange in the United States, founded in 1792. Merged in 2007 with the European stock exchange Euronext. **(New York Stock Exchange)**

50: The acronym stands for the Standard and Poor's 500 Stock Index. The index includes 500 large and varied stocks. **(S&P 500 Stock Index)**

Earn It

10: A profit realized from the sale of property, stocks, or other investments. **(Capital gain)**

20: A percentage of a stock trade (a buy or sell) paid by a customer to a stockbroker. **(Commission)**

30: A share of a company's profits paid to shareholders. **(Dividend)**

40: The market value of anything being offered for sale. **(Price)**

50: Money earned from an investment. The money could be profits, interest, appreciation, or a combination of these. **(Return)**

Who Am I?

10: A professional trader who buys and sells stocks for individuals and institutional customers. **(Broker)**

20: Someone who buys and sells stocks from his or her own accounts or the accounts of the firm he or she represents. Some of these people also act as brokers. **(Dealer)**

30: An organization (an insurance company or pension fund, for example) that invests in the stock market for clients. **(Institutional investor)**

40: An institution that participates in the primary markets for the sale of newly issued stocks and corporate and government bonds. **(Investment bank)**

50: A person who owns stock; sometimes called a shareholder. **(Stockholder)**

Financial Markets Potpourri

10: A stock that pays dividends regularly. **(Income stock)**

20: The first sale of stock by a private company to the public. **(Initial public offering)**

30: The ease with which savings or investments can be turned into cash. **(Liquidity)**

40: A network of securities dealers connected by a computer network to buy and sell stock without a centralized trading floor. **(Over-the-counter market)**

50: The division of a firm's outstanding shares of stock into a higher number of shares, often occurring when the price of a stock is considered too high by a corporation. The purpose is to lower the price of the stock to attract more buyers. **(Stock split)**

ACTIVITY 20.3
THE LANGUAGE OF FINANCIAL MARKETS NEWS STORY

Stock Market Rallies

Stocks rallied today on good news about the U.S. economy. The (1)________, an index of 30 large company stocks, rose sharply. The nation's oldest stock market, the (2)________, saw higher prices prevail. And the broader (3)________ also rose as the majority of the 500 stocks in this index made gains. The (4)________ stock market also rallied as technology stocks surged.

Adam Smith, chief economist at Edinburgh Investments, said "Many investors are moving their money out of (5)_______ and into stocks as the interest rates these investments pay have been low." When asked how investors of modest means can get involved in the stock market, Smith suggested they consider buying (6)______, as they typically invest in many different stocks allowing investors to diversify their portfolios during this bull market.

Income stocks also made gains as companies increased their (7)________ , sharing their profits with investors. Smith expressed hope that this rally would continue next week, but he worried that investors may sell stocks and take their (8)_______ as profits.