

- **Possible Reasons for Stock Prices to [Rise or Fall]**

This helpful handout can be used for discussion and it can be used as a quiz; asking students if they think the situations described are likely to cause a rise or fall in stock prices.

- **Accidents, Health Problems** – News about an accident or about a product, which may cause health problems, may cause investors to fear the company will not be able to regain its customers or reputation. **(fall)**
- **Divestiture** – Large conglomerates (a business enterprise consisting of widely diversified companies) often have one division of their corporation, which does not make money. By announcing the sale of its losing interest, its potential for profits increases and its value will rise. **(rise)**
- **Government Instability** – If a foreign country that supplies us with oil, for example, were going through a revolution, uncertainty would be created about the future of American companies, which depend (either directly or indirectly) on oil. **(fall)**
- **Government spending** – The U.S. government is the world's leading consumer. An increase in government spending will affect stock prices. **(rise)**
- **High interest rates** - Higher interest rates make it hard for companies to borrow money for expansion. Less growth may frighten away potential investors. **(fall)**
- **Increase in margin rates** – The Federal Reserve can increase the margin rate; thereby limiting the amount of money a broker may lend his/her customer. For example, a 50% margin rate means that a person who wants to buy \$10,000 of stock on margin must have \$5,000 (50%) in cash, and may borrow the other \$5,000 from the broker. If the rate is raised to 80% the buyer must increase his contribution to \$8,000. **(fall)**
- **Investigation by the SEC** – The Securities and Exchange Commission is the watchdog for the investment industry. If they are investigating a company this may scare off investors. **(fall)**
- **New product line** – A company produces a new product. **(rise)**
- **Profit** – A report about the increase profits of a company usually indicates that the company is prospering and may increase its dividends (a portion of a company's net income)

paid to stockholders as a return on their investment). This may attract prospective investors. **(rise)**

- **Take over bids** – A take-over bid is an attempt by one company to buy another through stock acquisition, by buying enough stock to control it. The stock of the company taken over becomes more valuable as the larger company makes offers. **(rise)**