

Name: _____

Connections: 8 - 0__ - ____

How Does News Influence Stock Prices?

Read the following and pick which answer best fits. Think as if you were an investor. What is good news and bad and for who: your company or the competitor.

Crews Middle School. Created by Rod Hames ©2002 Site used: <http://stocksquest.thinkquest.org/C001759/>

Examples:

- Share prices will likely increase
- Share prices will likely decrease
- Share prices will likely be unchanged
- Not enough information to determine

Here are examples of news events and the likely responses.

1. Productivity sees 6.4% increase, the largest gain since 1992. Share prices of General Electric, IBM, and 3M will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
2. Oil prices hit \$34 per barrel, the highest since the Gulf War. Share prices of United, South West, and Delta airlines will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
3. Judge Jackson rules that Microsoft has a monopoly on PC operating systems. Share price of Microsoft will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
4. AMD begins shipping a microprocessor that achieved an industry milestone with a clock speed of one gigahertz, processing one billion bits of information a second, the computer industry's equivalent of breaking the sound barrier. Share price of AMD will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
5. Because businesses need faster PC's, PC shipments are expected to rise 20% from the first quarter a year ago. Share prices of Dell, Intel, and Compaq will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
6. AOL surprisingly announces the mega merger with media giant Time Warner, signifying the growing power of Internet companies. Share prices of Yahoo! and Earthlink will likely: Answer

- increase
 - decrease
 - unchanged
 - can't determine
7. The co-chairman of Citigroup, John Reed, announces his retirement. The successor, Sandy Weill, will become the sole CEO: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
 8. President Bush announced that U.S. and Britain agreed to openly share data from a project to map human genes. Shares prices of the biotech stocks will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
 9. Yahoo! held talks with eBay about various forms of partnership and a possible merger. Share price of eBay will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
 10. Sears and America Online unveiled a wide-ranging strategic alliance that includes cross-marketing and promotional agreements. Share price of Sears will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
 11. The strike of Boeing's engineering and technical workers has delayed some testing and production of the F-22 fighter. Share price of Boeing will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine
 12. Intergraph's antitrust suit against Intel was dismissed. Share price of Intergraph will likely: Answer
 - increase
 - decrease
 - unchanged
 - can't determine

Write your answers to “How Does News Influence Stock Prices?” here:

1. **Share prices will likely** _____. Companies such as General Electric, IBM, and 3M will be more profitable as a result of higher productivity.
2. **Share prices will likely** _____. The airline companies will have to pay a higher fuel cost.
3. **Share price will likely** _____. Because the judge declares a monopoly on Microsoft, the government will likely put penalties on Microsoft.
4. **Share price will likely** _____. AMD beat industry leader Intel for the fastest microprocessor and will also take market shares away from Intel.
5. **Share prices will likely** _____. Because of increased shipments, companies will have an increase in sales and, therefore, profits.
6. **Not enough information to** _____. The announcement of the merger is too early to determine whether it will have any impact on Internet companies like Yahoo and Earthlink.
7. **Share price can't be** _____. All three management are well-respected industry leaders. The retirement of any one will not affect the operation of the company because all are competent to take over the job without any problems.
8. **Share prices will likely** _____. The private sector will be competing with the huge amount of resources and research as a result of the government-funded labs.
9. **Share price will likely** _____. eBay will likely be the target that Yahoo will acquire.
10. **Share price will likely** _____. The alliance will likely cause an increase in Sears' sales because of the exposure on the Internet to the 22 million AOL users.
11. **Share price will likely** _____. The strike will likely affect Boeing's sales and delivery of products to the government.
12. **Share price will likely be** _____. Intergraph will not be able to get any compensation from Intel.

HOW DOES CURRENT EVENTS AFFECT THE MARKET?

BAD NEWS

1. High Interest Rates

High interest rates make it hard on companies to borrow money for expansion. High rates also squeeze potential customers. For example, high credit card debt and or finance rates scare away potential customers. Consumer debt is at a all time high for this generation and in turn caused a slowdown of consumer spending.

2. New Market Competition

New competition like Kroger, means Publix has to cut prices and lower their profits (their profit margin shrinks). Or it might mean they must offer more services like free snacks like Kroger. More competition is good for the consumer but bad for business profits.

3. Investigation by the SEC

The Securities and Exchange Commission is the watchdog for the investment industry. If there are irregularities in its operation, the SEC will investigate. The investigation of a company by the SEC may warn investors of trouble and scare them off.



4. Government Instability

If a foreign country that supplies us with oil, for example, is going through a revolution, uncertainty would be created about the future of American companies that depend, either directly or indirectly, on oil. Example: Airline industry, travel, tourism, etc.

5. Leadership Changes.

Poor leadership can cause companies to fire top executives. Enron had leaders making very bad decisions that resulted in the destruction of the company.

6. Accidents, Health Problems

News about an accident or about a product that may cause health problems, may cause investors to fear that the company will not regain its customers or reputation. (Example: Tylenol in the early 80s)



GOOD NEWS

1. 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 being taken over becomes more valuable as the larger company makes offers. Investors want to own stock in the smaller company before the take-over, to share in the price rise.

2. Profits (Earnings Growth)

A report about the increased profits of a company usually indicates that the company is prospering and may increase its dividends. This may draw investors and increase the price of the stock.

3. Divestiture

Large conglomerates often have one division of their corporation that does not make money. By announcing the sale of its losing interests, its potential for profit increases and its value will rise. For instance, a company might sell its unprofitable retail stores but retain its profitable communications division

4. New Product Line

A company that produces a new product, such as a home computer, or a company that creates a new technique, such as splicing genes for the production of insulin, may draw investors who will bid up the price of the stock.

5. Government spending / or Policy Changes

The U.S. government is the worlds leading consumer. If it decides to spend money on defense items, for example, the companies that produce those items are virtually assured of long-term profits, and the value of their stock will rise.



Answers

Answers to “How Does News Influence Stock Prices?”

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