

Activity Sheet 2: Influences on the Market

1. The largest toy company in the United States, Toys for Everyone, produces the most famous toys in America. They have stores in nearly every country. Toys for Everyone is truly known to everyone. The company grew fast from its inception fifty years ago. In the fall of 2004, the CEO of Toys for Everyone was accused of embezzling twenty-five million dollars from the company. The company is now under investigation:

A. How will this affect the earnings of the company?

B. How will the event affect the future of the company?

C. How do you think the event will affect the price of the company's stock?

D. If the CEO is convicted of these charges, how do you think this will influence the stock?

E. If the CEO is cleared of the charges, how do you think this will influence the stock?

F. Presently, while the company is under investigation, how will this affect the company's stock?

G. Would you invest in this company? Explain.

2. The Good Health Pharmaceuticals Company has been around for 20 years. The company developed a drug that can cure lung cancer. It is ready to be distributed to the public. Good Health Pharmaceuticals has requested the FDA to endorse and release the drug. The FDA has reviewed the request and denied the release. The Federal Drug Administration has requested more tests be done to verify the safety of the drug. This could take up to ten years!

A. How will this affect the earnings of the company?

B. How will it affect the future of the company?

C. How do you think it will affect the price of the company's stock?

D. How will the denial of the release of the drug affect the company's stock?

E. If the drug had received FDA approval and been released, how would that event have affected the price of the company's stock?

F. Would you invest in this company? Explain.

3. The Good House Builders Company located in Mississippi has been in existence for 14 years. It has had steady work for the past few years. In September of 2005 a horrible hurricane hit the shores of Mississippi and wiped out major towns and cities throughout the entire southern part of the state. Every home and business was destroyed and people were left homeless and jobless. As people now return after the disaster, it is time to rebuild. The only construction company in the area is the Good House Builders.

A. How will the events of Fall 2005 affect the cost of materials that go into producing new homes? Explain why.

B. How will the event affect the manufacturing of homes?

C. How will the event affect the consumers' interest in buying homes from this manufacturer?

D. How will this event most likely affect the earnings of the company?

E. How will the event most likely affect the future of the company?

F. How do you think the event will affect the price of the company's stock?

G. If the hurricane did not hit, what other ways do you think the stock would have been affected?

H. Would you invest in this company? Explain.

4. Let us say that in the summer of 2010, inflation is at an all time high. In response, the Federal Reserve decides to raise interest rates. At the same time, Ford Motor Company decides to have a major sale on their cars and trucks. Most people buy the cars on credit. The car manufacturer worries that the interest rates may have an effect on their business.

A. How will the event affect the consumers' interest in buying cars and trucks?

B. How will this affect the earnings of the company?

C. How will it affect the future of the company?

D. How do you think it will affect the price of the company's stock?

E. How will the interest rate affect the company?

F. Does the company have reason to worry about its business?

G. How do you think the company can avoid any trouble with its business?

H. Would you invest in Ford? Explain.

ANSWER KEY

Activity Sheet 2: Influences on the Market

1. The largest toy company in the United States, Toys for Everyone, produces the most famous toys in America. They have stores in nearly every country. Toys for Everyone is truly known to everyone. The company grew fast from its inception fifty years ago. In the fall of 2004, the CEO of Toys for Everyone was accused of embezzling twenty-five million dollars from the company. The company is now under investigation:

A. How will this affect the earnings of the company?

This will cut into the earnings of the company because they will have to pay for legal fees to cover the investigation and representation in court.

B. How will the event affect the future of the company?

Any product which is connected with children is supposed to be seen a "pure and good". This will make parents buy products from another company, which does not have a scandal attached to its name.

C. How do you think the event will affect the price of the company's stock?

Eventually as sales decrease and/or the scandal widens, the price of the stock will go down.

D. If the CEO is convicted of these charges, how do you think this will influence the stock?

This will make bad headlines for the company and the stock price will go down.

E. If the CEO is cleared of the charges, how do you think this will influence the stock?

The stock might still stay low for a while because the company has been associated in peoples' minds with a criminal activity.

F. Presently, while the company is under investigation, how will this affect the company's stock?

I would expect the stock to drop, but not as much as it would if the company CEO was found guilty.

G. Would you invest in this company? Explain.

If I was a risk-taker, I might buy the stock after it dropped, hoping that the CEO would be cleared and that the stock would eventually go back up. This would be more likely if this were a well-established company. However, if I were not a risk-taker, I would sell the stock right away.

2. The Good Health Pharmaceuticals Company has been around for 20 years. The company developed a drug that can cure lung cancer. It is ready to be distributed to the public. Good Health Pharmaceuticals has requested the FDA to endorse and release the drug. The FDA has reviewed the request and denied the release. The Federal Drug Administration has requested more tests be done to verify the safety of the drug. This could take up to ten years!

A. How will this affect the earnings of the company?

The company's earnings will go down to pay for further tests and because they may not be able to sell the drug for ten years.

B. How will it affect the future of the company?

It will certainly hurt the company in the short term but if the drug is finally approved, it could help the company in the long term.

C. How do you think it will affect the price of the company's stock?

The price of the stock will drop and stay low until the drug is approved or another drug is approved which they can sell.

D. How will the denial of the release of the drug affect the company's stock?

The price of the stock will stay low until the company can get another drug approved by the FDA for an illness, which is widespread.

E. If the drug had received FDA approval and been released, how would that event have affected the price of the company's stock?

This will increase the price of the stock as long as the drug becomes popular and not bad side effects turn up over time.

F. Would you invest in this company? Explain.

Because of the high risk and long time for the possible approval of this drug, I would not buy stock in this company.

3. The Good House Builders Company located in Mississippi has been in existence for 14 years. It has had steady work for the past few years. In September of 2005 a horrible hurricane hit the shores of Mississippi and wiped out major towns and cities throughout the entire southern part of the state. Every home and business was destroyed and people were left homeless and jobless. As people now return after the disaster, it is time to rebuild. The only construction company in the area is the Good House Builders.

A. How will the events of Fall 2005 affect the cost of materials that go into producing new homes? Explain why.

The price will go up because it will cost more to bring them into the region with the roads and ports damaged. Also there will be a huge demand and the same or less supply of materials so the prices will be high.

B. How will the event affect the manufacturing of homes?

This will put pressure on the company to manufacture as many homes as quickly as possible. They will need to increase their production by maybe building new factories and supply stores.

C. How will the event affect the consumers' interest in buying homes from this manufacturer?

This will cause a huge demand for new homes and so they will have to hire more workers and buy more equipment.

D. How will this event most likely affect the earnings of the company?

This company will make a lot more money but will have greater expenses for supplies and to get more workers and machinery.

E. How will the event most likely affect the future of the company?

The company will become bigger and more profitable.

F. How do you think the event will affect the price of the company's stock?

The price of the stock will go up as investors see the potential for profits.

G. If the hurricane did not hit, what other ways do you think the stock would have been affected?

Because of population increases in the South, more houses are needed so the stock price should still be going up, but not at such a fast rate.

H. Would you invest in this company? Explain.

Yes, they will be making a lot of money and have a monopoly on building for now!

4. Let us say that in the summer of 2010, inflation is at an all time high. In response, the Federal Reserve decides to raise interest rates. At the same time, Ford Motor Company decides to have a major sale on their cars and trucks. Most people buy the cars on credit. The car manufacturer worries that the interest rates may have an effect on their business.

A. How will the event affect the consumers' interest in buying cars and trucks?

The high interest rates will make the cars more expensive to finance so the demand for Ford cars will decrease.

B. How will this affect the earnings of the company?

As sales decrease, so will the earnings of the company.

C. How will it affect the future of the company?

The company may have to come up with a program to finance the purchase of the cars at a lower interest rate or lower the price of the cars. It could also try to sell more vehicles overseas where interest rates or costs are lower. Overall it will be a challenge for the company to increase its earnings. They will have to hope that inflation cools off in the near future.

D. How do you think it will affect the price of the company's stock?

People will tend to sell their shares of Ford if they see sales and profits decline so the price of the stock will go down.

E. How will the interest rate affect the company?

The higher interest rate will not only hurt sales but it will also make it more expensive for the company to borrow money to finance the development of new cars or open new showrooms.

F. Does the company have reason to worry about its business?

Ford will need to worry about their business because it will decline unless they can find a way to keep their expenses down or develop some "creative financing" to attract buyers, or new markets.

G. How do you think the company can avoid any trouble with its business?

The company could stop production on its least profitable models, close some plants, renegotiate the contract with its workers, or provide lower interest loans to consumers to buy their cars. They also could try to sell more vehicles abroad where costs are lower.

H. Would you invest in Ford? Explain.

I would not invest in Ford because they are facing great challenges to increase their profits.