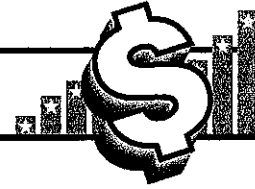


Economics Activity 22



Investing in Corporations

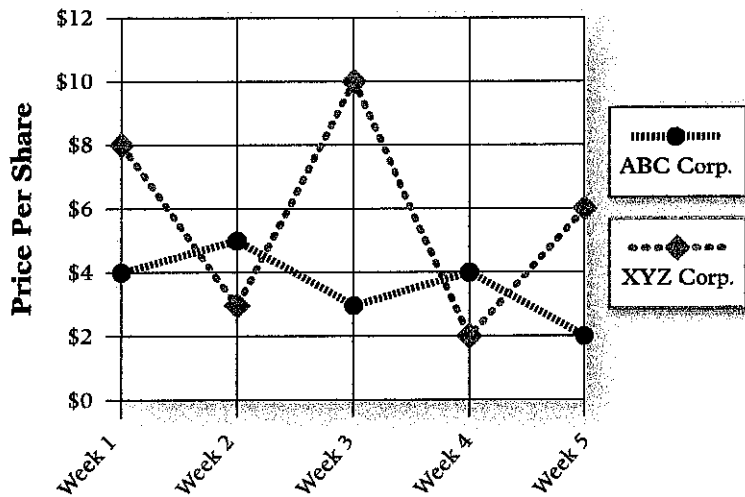
Stock is a share of ownership in a corporation. People buy stock as an investment. If the corporation fares well, the **stockholders** share in the profits. If the corporation fares poorly, the stockholders make little money. They may even lose the money they invested.

One way to make money on stock is to sell it for more than you paid for it. For example, suppose you bought 100 shares of ABC Corporation for \$2 a share. $100 \text{ shares} \times \$2 = \$200$ total invested. If the price rises to \$3 a share, your shares would be worth $100 \times \$3 = \300 . If you sold the shares at \$3, you would make a \$100 profit: \$300 received in the sale—\$200 paid for it.

Stock prices don't always rise, however. Stock prices rise and fall constantly as investors buy and sell shares. If the price changes by large amounts, the stock is risky. The price could be very low when you want to sell. As a result, you could lose a lot of money. A stock is less risky if its price changes only small amounts over time. The more risk you are willing to take, the greater your gains—or losses—could be.

DIRECTIONS: The graph below shows the price changes of two stocks over a period of time. Study the graph. Then answer the following questions on a separate sheet of paper.

1. Suppose you bought 100 shares of both stocks in Week 1. How much did you pay for ABC Corp.? How much did you pay for XYZ Corp.?
2. If you sold your XYZ stock in Week 4, how much would you gain or lose?
3. If you sold your ABC stock in Week 4, how much would you gain or lose?
4. Which stock is riskier? Why?



5. **CRITICAL THINKING ACTIVITY** Ask a parent or librarian to help you find stock quotes in a newspaper or online. Pick a stock to track. Pretend you bought 100 shares the first day. You paid the *closing price*. This is the price at the end of the day. For a week, record the stock's closing price each day. Plot the prices on a graph. At the end of the week, you sold the stock. Did you make or lose money on this investment? How much?