



# HISTORY & GEOGRAPHY

STUDENT BOOK

▶ **12th Grade** | Unit 8

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# HISTORY & GEOGRAPHY 1208

## THE STOCK MARKET

INTRODUCTION | 3

### 1. **THE HISTORY AND WORKINGS** **5**

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THE STOCK MARKET: HOW IT STARTED | 6

THE STOCK MARKET: HOW IT WORKS | 9

SELLING, BUYING, AND BROKERS | 11

SELF TEST 1 | 14

### 2. **FROM CHOOSING TO CRASHING** **17**

---

SELECTING STOCKS | 18

WHAT CAUSES A STOCK MARKET TO CRASH? | 21

SELF TEST 2 | 24

### 3. **TYPES AND TRACKING** **27**

---

TYPES OF STOCKS | 28

TRACKING STOCKS | 31

SELF TEST 3 | 34



**LIFEPAC Test is located in the center of the booklet.** Please remove before starting the unit.

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# The Stock Market

## Introduction

The very first **stock exchange** was created in 1531 in Antwerp, Belgium and England's first stock exchange originated in 1773. America created its first stock exchange in New York. With the **New York Stock Exchange**® dominating the financial news and causing waves in the financial world every week, it's almost humorous to hear of its humble beginnings. With billions of dollars moving about daily, you might find it hard to believe the NYSE®'s beginnings were with a handful of men standing in front of a buttonwood tree near the Trinity Church in East Manhattan during the American Revolution. Silver was traded for paper documents, giving "proof" that the bearer now owned stock in the cargo that was moving in to the harbor each day. The goods were available and the business was brisk. Trading in New York had begun.

## Objectives

**Read these objectives.** The objectives tell you what you will be able to do when you have successfully completed this LIFEPAAC®. When you have finished this LIFEPAAC, you should be able to:

1. Describe in brief the history of the stock market.
2. Explain how the stock market works.
3. Explain the process of buying, selling, and trading stocks; to know the function of a stock broker.
4. Describe what a stock is and explain the process of selecting one.
5. Explain what a stock market crash is, what causes one and when they have happened.
6. Give an explanation of the four different types of stocks and the definitions of "bull" and "bear" market.
7. Identify terms having to do with the tracking of stocks.

Survey the LIFE PAC. Ask yourself some questions about this study and write your questions here.

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# 1. THE HISTORY AND WORKINGS

## Section Objectives

**Review these objectives.** When you have completed this section, you should be able to:

1. Describe in brief the history of the stock market.
2. Explain how the stock market works.
3. Explain the process of buying, selling, and trading stocks; to know the function of a stock broker.

## Vocabulary

**Study these words to enhance your learning success in this section.**

<b>American Stock Exchange®</b> . . . . .	The formal name of the curb traders; the AMEX®, as it is known, began in 1908.
<b>bond</b> . . . . .	Certificate guaranteed that the original investment will be paid with interest at a specified date.
<b>curb trading</b> . . . . .	Trading which began on the street curb because the NYSE® turned down certain stocks.
<b>Industrial Revolution</b> . . . . .	Growth in America in the 19th century; emphasis moved from farming to manufacturing.
<b>New York Stock Exchange®</b> . . . . .	The largest of all American stock exchanges, created in 1792.
<b>share</b> . . . . .	A unit of the equal parts of the capital stock divided by a corporation.
<b>stock exchange</b> . . . . .	A place where financial securities are bought and sold.
<b>Wall Street</b> . . . . .	Where the New York Stock Exchange® originated; still the meeting place of the NYSE®.

**Note:** All vocabulary words in this LIFEPAK appear in **boldface** print the first time they are used. If you are not sure of the meaning when you are reading, study the definitions given.

**“Money was made, not to command our will,  
But all our lawful pleasures to fulfill.  
Shame and woe to us, if we our wealth obey;  
The horse doth with the horseman away.”**

— Abraham Cowley

## THE STOCK MARKET: HOW IT STARTED

In the early days of our nation, the Colonial government was looking for a way to finance its wartime operations, so it sold **bonds**. If a person bought a bond, they received a paper for a certain amount of money and period of time. After that time expired, the person turned in the bond and was given the cost of the bond plus a **profit**. At the same time, the first banks in American history were being created, and once again cash was needed to make the start successful. In addition to bonds, the banks sold little parts of their banks to whoever had the money and the desire to own a **share** in the business. Once again, the idea was good and the business grew. These **transactions** were the beginning of the stock market of today. The men would meet on what was once a farmer’s market area known as **Wall Street** in New York. Desiring better organization, 24 men gathered and initiated the New York Stock Exchange, which is also known by its initials, NYSE®.

After the **Industrial Revolution**, Wall Street came to prominence in the 1900s, and the New York Stock Exchange was getting all the business it could use. Some of the stocks that were offered for sale were not reliable enough to be put in the NYSE®, so a brisk business was running outside on the curb of the street. This was called “**curb trading**” and the business was called “The Curb Exchange.” It continued to grow and was renamed the **American Stock Exchange**®, also known as AMEX®. Other name changes and restructuring took place and the name became NYSE MKT LLC in 2012.

Today, there are hundreds of stock exchanges in cities all over the world that work together and play an important part in the economies of America and other countries of the world.

From its humble origins of the 1700s, the stock market in America has grown to be an important financial force in the world today. However, as important as the stock market seems, you may not be familiar with some of the terms surrounding it and its activity. Let us take a look at a few important terms:

An **annual report**—this is a document that is **issued** each year to give details to investors about a company’s financial performance. It is the “homework” done so that you may know if your money is being invested wisely. That is valuable information, as is the Dow Jones<sup>SM</sup> industrial average which is given every day on many financial networks. The Dow<sup>SM</sup> is a composite index of stock prices representing 30 of the nation’s biggest companies. “Composite” means that the Dow<sup>SM</sup> is a single index which represents the market performance of more than one company—in fact, thirty companies. It is almost as if the Dow<sup>SM</sup> did a day’s long inspection of the “top 30” and wants you to know how they performed. By looking at the chart, you can get an idea of the status (health) of the nation’s top companies. Since these companies are essentially the backbone of the nation’s economy, you get an idea of the financial health of corporate America. When you hear the TV reports on the “NASDAQ®,” you are hearing news about the “National Association of Securities Dealers Automated Quotations®,” a computerized nationwide trading system for over 4,000 companies. Amazon.com<sup>SM</sup>, Apple® Computer, Microsoft®, and other high-tech companies are listed here. On the NASDAQ® Composite Index you will get an idea of the strength of the high-tech industry.

**Fill in the blanks.**

- 1.1** From its humble origins of the \_\_\_\_\_, the stock market in America has grown to be a financial force in the world today.
- 1.2** After the \_\_\_\_\_, Wall Street became much more important and the New York Exchange was getting all the business it could use.
- 1.3** A unit of the equal parts of the capital stock divided by a corporation is called a(n) \_\_\_\_\_.
- 1.4** In the 1700s the first banks in American history were being created and once again \_\_\_\_\_ was needed to make the start successful.
- 1.5** Some of the stocks offered were \_\_\_\_\_ to be put in the NYSE®, so a brisk business was running outside on the curb of the street.

**Match these items.**

- |             |                                |           |   |
|-------------|--------------------------------|-----------|---|
| <b>1.6</b>  | _____ share                    | <b>a.</b> | a place where financial securities are bought and sold                  |
| <b>1.7</b>  | _____ American Stock Exchange® | <b>b.</b> | the largest of all American stock exchanges, created in 1792            |
| <b>1.8</b>  | _____ stock exchange           | <b>c.</b> | started in the 19th century; emphasis moved from farming to the factory |
| <b>1.9</b>  | _____ New York Stock Exchange® | <b>d.</b> | The formal name of the curb traders; it began in 1908                   |
| <b>1.10</b> | _____ Industrial Revolution    | <b>e.</b> | a unit of the equal parts of the capital stock divided by a corporation |

**Answer true or false.**

- 1.11** \_\_\_\_\_ The very first stock exchange was created in 1531 in Antwerp, Belgium.
- 1.12** \_\_\_\_\_ “The Curb Exchange” continued to grow and was renamed the American Stock Exchange®, also known as AMEX®.
- 1.13** \_\_\_\_\_ New York Stock Exchange® is also known by its initials, NYSE®.
- 1.14** \_\_\_\_\_ England’s first stock exchange began in 1873.

**Mark the statements that are TRUE.**

- 1.15** \_\_\_\_\_ If a person bought a bond, they received a paper for a certain weight of gold.
- \_\_\_\_\_ In the early days of our nation, the Colonial government was looking for a way to finance its wartime operations, so it sold bonds.
- \_\_\_\_\_ Traders would meet on what was once a farmer’s market area known as Wall Street in New York.
- \_\_\_\_\_ The Belgium Stock Exchange began with a handful of men standing in front of a buttonwood tree near the Trinity Church in East Manhattan during the American Revolution.
- \_\_\_\_\_ In addition to bonds, the banks sold little parts of their banks to whomever had the money and the desire to own a share in the business.



“Never ask of money spent  
Where the spender thinks it went.  
Nobody was ever meant  
To remember or invent  
What he did with every cent.”  
— Robert Frost, *The Hardship of Accounting*

## Vocabulary

Study these words to enhance your learning success in this section.

- Barron's®** ..... A financial weekly publication which features information on buying and selling stock.
- broker** ..... The person who does the actual purchasing of the stocks for you.
- broker services** ..... Work for the shareholder done by the broker, such as selling and buying stock.
- prospectus** ..... A plan of a new business or financial endeavor, including capital needed to be a shareholder.
- receipt** ..... Written proof that a purchase has been made.
- shareholder** ..... One who owns shares of a business on the stock exchange.
- stock ticker** ..... A device which gives constant updates on the activity of the New York Stock Exchange®.
- Wall Street Journal®** ..... Daily newspaper which focuses on stock market activity.



## THE STOCK MARKET: HOW IT WORKS

The stock market is a powerful financial tool in the workings of America and the world. Two men sitting at a lunch table are reading a **prospectus** about a company and trying to decide if they should put their thousands of dollars into a corporation such as this. People constantly checking a **stock ticker** to see how their investments fared during the course of the day. Thousands subscribe

to publications such as *Barron's*<sup>®</sup> or the *Wall Street Journal*<sup>®</sup> to get information on investing more wisely. You see and hear all of the stock market terms but you may not be sure what they have to do with actually making any money! How do you learn about it? One of the easiest ways for us to learn about the working of a stock market is by inventing a little scenario:

### LET'S PRETEND THAT YOU GET TO BUY A PIECE OF A COMPANY ...

Let's say that you have been told by a good friend that Mattel<sup>®</sup> Toys is going to come out with a Christmas toy that is going to be the hottest item of the decade. Your friend tells you that the brand new product is going to be such a hit that it will increase their business by almost three times. You wonder if there could possibly be a way for you to own a part of Mattel<sup>®</sup> so you could enjoy the benefits of that great new product. Guess what! You can. Mattel<sup>®</sup> is one of the long list of companies that lets the public buy a part of their company. So you break your piggy bank and find out that you have 100 dollars that you have saved up for an opportunity like this.

How do you actually buy a part of Mattel<sup>®</sup> Toys? Mattel<sup>®</sup>, as well as thousands of other companies, offers the opportunity to buy a part of their company by selling shares. When you purchase a share, you have purchased a little piece of the company. Even though it is a tiny, tiny part of the whole business, you are venturing into the stock market. You are now a **shareholder**.

**Where do you go now?** You know you want to buy shares in Mattel<sup>®</sup> Toys, but you are pretty sure that you can not run down to Toys "R" Us<sup>®</sup> and tell them you want twenty shares of Mattel<sup>®</sup>. Instead, you make contact with someone who is called a broker. A **broker** is the person who will do the actual purchasing of the stocks for you since individuals can not buy stock directly. If you schedule an appointment with a broker and tell him you'd like to buy some stock, he'll be ready to do business.

You contact the broker and tell him, "Sir, I'd like to buy as much Mattel<sup>®</sup> Toys stock as I can get for \$100. That is what I have to spend." The broker then tells you, "Well, right now a share in Mattel<sup>®</sup> Toys is going for 10 dollars (not the actual price), but my services will cost you 40 dollars, so you can buy six shares of Mattel<sup>®</sup>." You hand the money to the broker and guess what? You now own stock in Mattel<sup>®</sup>.

This can also be done on the Internet through an online broker. The process is similar, you pay a fee to a broker or brokerage firm to process your purchase. You contact them by computer, not by a phone.

Now, even though you only got a paper **receipt**, what actually went on when you made that purchase for Mattel<sup>®</sup> stock? Of course, the broker did not have the stock at the business place where he worked, but he contacted the Stock Exchange and made the transaction. In our next lesson, you will learn what goes on once you make the purchase.





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