Hot Stock Tips (a short play)

Maria, Michael and their mom are talking about stocks and business expansion. Read their conversation as it is acted out in front of the class.

Mom:	How was school today?
Maria:	Okay.
Michael:	Yeah, it was okay. How was work, Mom?
Mom:	My corporation really needs to expand. Our new line of software is very popular and we have many orders, but we need more equipment and a larger building to keep up. We could raise some money by issuing more stock.
Michael:	Mom, what is stock, and how can your company get money from stocks?
Mom:	Stocks represent part-ownership in a corporation. Our corporation could work with investment bankers to issue stock. We would sell that stock to the investment bankers, and they would give us money in return. We could use the money from the sale of the stocks to pay for equipment, buildings and operating expenses.
Maria:	Mom, why do the investment bankers want stock?
Mom:	The investment bankers buy the stock and try to resell it at a higher price to the public.
Michael:	Some of the kids at school play a stock market game. What is a stock market, anyway?
Mom:	A stock market is a way for people to buy and sell stocks. There is a New York Stock Exchange, an American Stock Exchange and the NASDAQ market. There are stock markets in other countries too. A lot of the buying and selling occurs on computers or by phone.
Maria:	Aren't stocks just pieces of paper? Why do people want to buy stocks?
Mom:	People buy stock because they expect to earn a return - to make money.
Michael:	How do people who buy stock make money?
Mom:	One important way they may earn money is by selling the stock at a price higher than the price they paid for it. The difference between the price they paid for the stock and the higher price they receive for the stock is called a capital gain. Stockholders can also make money if the company pays dividends.
Maria:	What are dividends? Sounds like something we talk about in math class.
Mom:	Dividends are paid to people who own stocks. Here is how it works. Stockholders are owners of corporations. They get to make decisions about who runs the corporation. If a company earns a profit, it may pay dividends. Dividends are a part of a company's after-tax profit that may be distributed to shareholders - the owners. Companies can also put the profit back into the business.
Michael:	Who decides the price for a stock? I mean, if I want to sell it at a higher price than the price I paid for it, how can I be sure the price will go up?
Mom:	The value of a stock depends on whether stockholders want to keep it or sell it and on how much those who want to buy the stock are willing to pay for it. If the stock is very popular and many people want to buy it, the price would go up. Prices can go down, too. There's no guarantee.
Maria:	If there's no guarantee that you can sell stock for a higher price than you paid, you could lose money. Wouldn't it be better to keep your money in the bank?

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Mom:	Well, it is always good to keep some money in the bank. It is safe there, and the bank pays interest. But people have a chance to earn an above-average return - more than they would earn in interest at the bank or through other financial investments - if they buy stock. Usually, people who buy stock and keep it for a long period of time receive a higher return than they would with another financial investment. And you know, stockholders can reduce the chances of loss by diversifying their portfolios.
Michael:	Mom, I have an art portfolio at school. But I don't know what a portfolio is and I don't know what diversify means.
Mom:	Hmmm. Those might be a couple of good words for you to look up in the dictionary.

Questions for Discussion

A. What is a stock?

B. Why do corporations issue stock?

C. When the shares of stock are first issued, to whom are they sold? How does the corporation get money from the stocks?

D. Why do investment bankers buy the stock?

E. What are stock markets?

F. Why do people buy stock?

G. How do people earn money from stocks? (two ways)

H. What are dividends?

I. When people buy stock, is there a guarantee that they will receive dividends or that they will be able to sell the stock at a price higher than the price they paid for it? Explain.

J. If there's no guarantee, why are people willing to buy stock?

K. What determines the price of a stock?

L. What is the main advantage of owning stock? Disadvantage?