Financial News You Can Use

Financial news is important to all households. If you have an adjustable-rate mortgage, if your individual retirement account (IRA) is based on changing interest rates, or if you have money invested in mutual funds, stocks, or bonds, you need to keep informed about what is happening in the world of business. This is a lifelong process.

Very basic financial information can influence:

- The prices you pay for goods and services.
- The amount of your paycheck.
- The interest earned on your savings account.
- The returns on your investments.
- The interest you pay on loans.

Learning the terms and concepts in this publication can help you make informed money decisions based on financial news.

Inflation Rate

The inflation rate is a key factor in determining what your money will buy. Inflation means that $100 at the beginning of the year buys less than $100 at the end of the year. If the year had a 5 percent inflation rate, the $100 you spent on groceries in January would buy only $95 of food in December.

You need to compare the money you are saving to the inflation rate. If your savings account earns 6 percent interest during a year with a 10 percent inflation rate, you will have lost 4 percent of the purchasing power of the money in your savings account. If you had $100 in the account at the beginning of the year, a 6 percent interest rate would give you $106 in the account at the end of the year. However, with a 10 percent inflation rate, the groceries you bought in January for $100 would now cost $110. Thus, $110 (inflated dollars) minus $106 (saved dollars) results in a loss of $4 due to increased prices. Over several years, this makes a big difference.

For example, elderly persons on fixed incomes may have the same income for 10 years, but prices may have risen an average of 3 percent per year. This means they may be paying 30 percent more for electricity than they did 10 years ago, even though their income has remained the same.

Be aware of the current inflation rate and compare this rate to what you are saving. If you stuff your mattress with $100 in a year with a 5 percent inflation rate, you will lose $5 of purchasing power due to inflation.

Each year, check the amount of your pay increase with the rate of inflation. If your raise is larger than the inflation rate, you are making more money than the year before. If your raise is less than the inflation rate, you are losing money, because you won’t be able to buy as much.

Interest Rate

The interest rate is the percentage charged by banks or credit card companies for loaning money or the percentage paid by banks for borrowing your money in savings accounts, checking accounts, or certificates of deposit. These rates change frequently. Actions by the Federal Reserve System influence the interest rates charged by banks and credit card companies. Currently, the rates charged usually are based on one-year Treasury Bills.
Economic Policies

A. Federal Reserve Policies

The Federal Reserve System is the central bank of the United States. The Federal Reserve has three goals—full employment, stable prices through low inflation, and economic growth—and sets monetary policies to try to achieve those goals. The actions of the Federal Reserve Board of Governors have an enormous impact on consumers. Interest rates at banks for savings accounts, certificates of deposit, and various types of loans are tied to actions the Federal Reserve makes on monetary policy.

B. Monetary Policy—Federal Reserve

The Federal Reserve System has three methods of controlling the economy: open market operation, discount rate, and reserve requirement. Open market operation involves the purchase and sale of government securities, such as treasury notes, bonds, and bills. The discount rate is the rate of interest charged by the Federal Reserve when banks borrow money from it. The reserve requirement is the amount of money commercial banks hold in reserve on loans made.

Each of these actions will either “tighten” or “loosen” (or expand) the money supply. A tightened money supply, in which less money is available, tends to lower inflation. A loosened money supply, in which more money is available, tends to boost economic growth and employment. Putting money into the economy helps in employment and growth, while taking money out of the economy helps slow excessively rapid expansion, which can lead to inflation. Economic expansion with full employment can be bad, because it could result in increased prices. An economy that is cooling down can be good if inflation is rising, or it can be bad if there is no inflation.

C. Fiscal Policy—U.S. Congress

The U.S. Congress can change spending and taxing policies. Government spending puts money into the economy, while taxing takes money from businesses and people.

Measures of Economic Strength

A. Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a consumer-oriented measure of inflation made by the U.S. Bureau of Labor Statistics. It looks at the retail prices of what you buy. Changes in price of more than 300 goods and services are tracked and recorded. Because you may not buy the same goods measured by the CPI, and because inflation affects people differently, the CPI may overstate or underestimate the true rate of inflation for you. If your household has high medical expenses, children in college, or high housing expenses, your true rate may be higher than the monthly rate you read or hear about.

B. Producers’ Price Index (PPI)

The Producers’ Price Index (PPI) is calculated by the U.S. Department of Labor and measures the wholesale cost of goods over time. The PPI looks at wholesale prices of commodities and other supplies businesses would buy.

C. Index of Leading Economic Indicators

The Index of Leading Economic Indicators is tabulated by the National Bureau of Economics Research. These measures attempt to predict the business cycle of economic growth or negative growth, also called contraction or recession. The index turns down before a decline in growth. However, it is impossible to tell beforehand exactly what the economy will do—only by looking back can these trends be seen clearly. As a result, the index is not completely accurate. Consumer confidence is one of the factors considered in this index. High consumer confidence indicates that consumers might buy more, and thus the economy might do better.

D. Balance of Payments

Balance of Payments is a record of all the money transactions between a country and the rest of the world. It includes three accounts. First is the account reflecting the value of goods and services imported and exported. The second account is the value of capital investments in other countries, with particular attention to factories and equipment and investment in the securities (stocks and bonds) of other countries. The third account is the official reserve account, which is a balancing account and reflects the changes in international reserves as a result of the first two accounts. The news most frequently reports on trade balances or the amount of imports and exports. However, trade balances need to be considered in conjunction with the other two accounts.

E. Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the final value of all goods and services for the country, including U.S. citizens’ income but not income from U.S.-owned plants in other countries. It is the value of all production of
goods and services within the United States.

**F. Recession**

Recession is a period, usually three quarters or longer, when unemployment rises and national output (GDP) declines.

**Stock Market**

Stocks are traded on different exchanges. An index will track how stocks perform.

**New York Stock Exchange (NYSE)**

There are several stock markets, but the largest and best known is the New York Stock Exchange (NYSE). It provides a facility for orderly trading of selected securities. Stock on the NYSE must publish quarterly reports, have shareholders vote, have 1.1 million shares, have 2,000 shareholders holding 100 or more shares, have tangible assets of $16 million, and have pretax income of $2.5 million.

**American Stock Exchange (AMEX)**

The second largest stock exchange in the United States is the American Stock Exchange (AMEX). In addition to stocks, it also handles transactions in bonds and options.

**National Association of Securities Dealers Automated Quotation (NASDAQ)**

The National Association of Securities Dealers Automated Quotation (NASDAQ) is the recognized automated version of the old over-the-counter (OTC) stock market. It is an informal secondary market for unlisted securities. This negotiated market involves a network of dealers called the National Association of Securities Dealers (NASD). NASDAQ is a quotation system for brokers of all major unlisted stocks and bonds that are actively traded. These stocks tend to have fewer shareholders, although many of the larger technology stocks have elected to remain on this market.

**Bull Market**

A bull market occurs when the general trend for stock prices is up.

**Bear Market**

A bear market occurs when the general trend for stock prices is down.

**Dow Jones Industrial Average (DJIA)**

The Dow Jones Industrial Average (DJIA) is an average of the stock prices of 30 stocks. In addition to the industrial average, Dow Jones also does averages for transportation stocks, utility stocks, and a composite of all stocks in the three separate averages. Because the Dow Jones Industrial Average uses such a small number of stocks, it is often criticized for not representing the whole market, which is why other indexes also are used.

**Standard and Poor’s 500 Index (S&P 500)**

Standard and Poor’s 500 Index includes 500 stocks, which are used to examine trends in the market. The S&P 500 is a value-weighted index of different stocks. It includes 400 industrial stocks, 20 transportation stocks, 40 utility stocks, and 40 financial companies. The base year is 1943, when the index was 10. This means that if the index is currently 100, the value of these stocks is 10 times their value in 1943.

**New York Stock Exchange Composite Index**

The New York Stock Exchange Composite Index is an index of prices of all the stocks listed on the “big board” New York Stock Exchange. The Wilshire 5000 index is the broadest-based measure of stock
prices, because it uses all publicly traded stocks. In the United States, roughly 7,000 companies. The NASDAQ Composite Index of over-the-counter stocks includes more than 5,000 stocks.

Watching Financial News

Television offers flexibility. You can view programs live or videotape them to watch at your convenience. Some financial news programs are listed below. Check your local listings for air times.

- “Business Tonight” (Monday–Friday on CNBC)
- “Nightly Business Report” (Monday–Friday on Public TV)
- “Wall Street Week” (PBS)
- “Steals and Deals” (Monday–Friday on CNBC)
- “Money Club” (Monday–Friday on CNBC)

CNN also broadcasts a series called “Moneyline.” These programs provide from 30 minutes to 2 hours of current information to help increase your understanding of money which, in turn, will help you and your family save, invest, and spend family income wisely.

Listening to Financial News

Listening to the radio can be another way to increase your knowledge of financial matters. National Public Radio (NPR) and other networks have radio programs that focus on money issues.

Computerized Financial Resources

If your household has a computer, many tools are available to help you become more informed and to keep records that can help you make major decisions. Some software programs help with routine money management processes such as record keeping, bill payments, saving and spending plans, and net worth statements. Other computer programs will help with financial tasks such as determining federal income tax, retirement income, or housing costs. Computer on-line services are many and varied. Some banks have on-line credit cards.

Financial News in Print

Many weekly and monthly publications have current financial and business information. Some examples include Business Week, Kiplinger’s Personal Finance Magazine, Money, Smart Money, The Wall Street Magazine of Personal Business, and U.S. News and World Report. Consumer Digest and Consumer Reports are monthly publications that provide unbiased information about products and services, personal finance, health, nutrition, and other consumer concerns.

Current books are another source of financial information. Use books published in the last two or three years: while basic concepts rarely change, other factors in the economy, legislation, and households do change.

By watching television, listening to the radio, reading, and using computer services and programs about business, economic, and financial issues, you will gain greater understanding of money matters. Being informed can improve your money management skills, which, in turn, provides your household with greater satisfaction. It may help you increase

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