

## ***Real-Life Application: When Will I Ever Use This?***

For use with pages 72–77

### **Stockholders**

Stock is a right of ownership in a corporation. The stock is divided into a certain number of shares, and the corporation issues stockholders one or more stock certificates to show how many shares they hold.

Stockholders may sell their stock whenever they want to, unless the corporation has some special rule to prevent it. Prices of stock change according to general business conditions and the earnings and future prospects of the corporation. If the business is doing well, stockholders may be able to sell their stock for a profit. If the business is not doing well, stockholders may have to take a loss.

Stock is often traded under a contract called an option. An option allows the holder (owner) to buy or sell a certain amount of stock at a specific price within a designated time period. For example, an investor may believe that corn will increase in value. The investor can buy an option for corn at \$2.22 with a call date of March 10th. Corn is currently on the market at \$2.10. If the value of the corn stock rises above the price set (\$2.22) by the option, the holder will profit. If the value of corn does not exceed the value of \$2.22 by March 10th, the holder will lose their investment.

### **In Exercises 1-6, use the following information.**

You decide to give the stock market a try. You buy one share in a company. You follow the stock market for five days, watching your specific company.

1. Over the five-day period your stock does the following: gains 2 cents, loses 10 cents, gains 3 cents, gains 5 cents, and loses 4 cents. Find your net profit or loss for this five-day period.
2. You paid \$8.54 for your share. After the five-day period, how much is your share worth?
3. As you look back over the five-day period, when would have been the best time for you to sell? (When would you have made the greatest profit from selling your share?)
4. Suppose you do not sell your share and watch the market for another five-day period. The results are: loses 3 cents, gains 5 cents, gains 7 cents, loses 2 cents, and gains 9 cents. Find the net profit or loss for this five-day period.
5. Using your answer from Exercise 2, find the value of your share after the ten-day period.
6. After the ten-day period, did you make a profit or suffer a loss? How much?