


# Exploring the World of Investing QUIZ

To help reinforce what you've just learned,  
take the following Exploring The World of Investing quiz:

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- ① When you read that “the market was up 100 points” this is referring to:
    - a) The S&P 500 Index
    - b) The Dow Jones Industrial Average
    - c) The Consumer Price Index
    - d) The Dow Jones Transportation Index
  - ② The best way to manage inflation risk is to:
    - a) Have some exposure to bond funds in your portfolio
    - b) Have some exposure to stock funds in your portfolio
    - c) Keep your fingers crossed
    - d) Have some exposure to cash equivalents or stable assets in your portfolio
  - ③ How many companies are represented in the Dow Jones Industrial Average?:
    - a) 500
    - b) 100
    - c) 30
  - ④ Trying to “time the market” is an effective investment strategy?
    - a) True
    - b) False
  - ⑤ Dollar-Cost Averaging is:
    - a) An index used to measure consumer spending
    - b) An investment strategy that involves investing the same amount of money at regular intervals
    - c) A way to manage inflation risk
    - d) None of the above
  - ⑥ The risk that an investment will lose value because of a decline in a particular type of company or industry is known as:
    - a) Economic risk
    - b) Inflation risk
    - c) Business risk
    - d) Market risk
  - ⑦ Which of the following is an example of the “new economy?”
    - a) Intel
    - b) Chevron
    - c) Home Depot
    - d) Both A and B
    - e) Both A and C
  - ⑧ Which of the following market indexes represents about 98% of the value of the U.S. stock market?
    - a) Nasdaq Composite Index
    - b) Russell 3000 Index
    - c) S&P 500 Index
    - d) The Dow

# A SIGN of the TIMES

Understanding the major economic influences on the investing world can help you become a truly informed investor in the 21st century. It can increase your comfort level with your own investment strategy and help you take a more active role in managing your financial future!

Here are some major economic indicators that can give you a better understanding of what's happening in the investing world. In most cases you can review these in your own daily newspaper or financial publications such as *The Wall Street Journal*.



## Jobless Claims

A rising number of unemployment claims across the nation means the economy is slowing. A decreasing number is a sign that the economy is growing. However, low unemployment across the nation can cause inflation to rise. That's because employers may have to increase the wages they offer in order to attract qualified workers to their new job openings. The higher labor costs are passed on to consumers in the form of increased prices for their products and services.

## Durable Goods

A backlog of orders for a wide range of manufactured products, from machinery to transportation equipment, signals increasing demand that will keep the economy expanding.

## Housing Starts

The number of housing permits being issued is a measure of economic health. A growing economy usually generates increased demand for new housing.

## New Factory Orders

An increase in orders reported by manufacturers for consumer goods and materials reflects confidence in the economy and suggests continued growth.

## Weekly Earnings

This monthly report, issued by the Department of Labor, tracks individual income. When salaries and wages increase, individual spending generally increases. An increase in individual spending is the largest single factor in economic growth.

## Producer Price Index (PPI)

This measures the cost of raw materials, such as sugar, steel, and cotton. The PPI is a good indicator of what will be happening to retail prices. Prices tend to go up a few months after production costs rise, as companies pass on their increased costs to consumers.

## Consumer Credit

This is the amount consumers are charging to pay for purchases. It reflects consumer confidence—or lack of it. Increasing charges suggest people feel good about buying.

## Consumer Price Index (CPI)

This is the most widely used measure of inflation—and the basis for figuring adjustments to Social Security payments as well as determining cost-of-living increases in wages and pensions. The Bureau of Labor Statistics compiles the CPI every month by recording prices for over 80,000 goods and services that reflect the lifestyle of the typical American consumer. It includes food, housing, clothing, transportation, health care, recreation, and education.

## Additional Resources

**U.S. Census Bureau—  
Economic Indicators Web Site**

[www.census.gov/ftp/pub/indicator/www/indicat.html](http://www.census.gov/ftp/pub/indicator/www/indicat.html)

**The Wall Street Journal Guide to  
Understanding Money & Investing**

by The Editors of The Wall Street Journal