

# Economic Detective

## Sylvestor and Frugala Investor



### Problem

December is approaching, and Sylvestor Investor is anticipating a year-end bonus of \$10,000. Sylvestor and his wife, Frugala, agree to invest the money rather than spend it. Sylvestor is so eager that he begins daytrading in November, losing almost the whole month's paycheck. Alarmed, Frugala packs up his computer and sends it to her cousin Wilder in the Australian outback. When his bonus arrives, Sylvestor has to find other ways to put his money to work.



### Investigation 1

Frugala immediately sends Sylvestor to the bank with his bonus check. There he places all \$10,000 in a savings account, promising himself not to settle for an interest rate of 2.9 percent for any longer than necessary. The bank's financial adviser suggests that Sylvestor consider certificates of deposit or possibly mutual funds, and Frugala suggests that he buy more life insurance. Wilder, in his thank-you letter for the computer, asks if he can borrow \$1,000 to invest in a drive-in theater his buddy wants to build. Sylvestor listens to the suggestions, but still wants to talk to a stockbroker.

1. What financial intermediaries does Sylvestor use or consider using? \_\_\_\_\_
2. Where would Sylvestor go to talk to a stockbroker? \_\_\_\_\_
3. How does speculation enter the picture? \_\_\_\_\_
4. If Sylvestor waits a year, how much will he have to invest? \_\_\_\_\_



### Investigation 2

Frugala is pleased when Sylvestor puts \$2,000 into 10-year state bonds and \$3,000 into 5-year AAA-rated bonds in Steady Hand Hardware, Inc. He buys the four state bonds at a 5 percent interest rate and the three Steady Hand bonds at a 6.5 percent rate. Sylvestor also buys two \$500 bonds from a high-tech firm at 7 percent, due in three years, at a total discount of \$50.

1. (a) What is the maturity for each of the three bond groups Sylvestor buys? \_\_\_\_\_
- (b) The coupon rate? \_\_\_\_\_
- (c) The par value? \_\_\_\_\_
- (d) Which does he buy for less than par? \_\_\_\_\_

2. (a) Which of Sylvestor's new investments are municipal bonds? \_\_\_\_\_
- (b) Corporate bonds? \_\_\_\_\_
3. For which bond purchases did Frugala probably consult Standard & Poor's? \_\_\_\_\_



### Investigation 3

The financial adviser from Sylvestor's bank suggests a mutual fund that holds a number of popular stocks and gives him an investment report on the fund. Sylvestor's boss also offers to sell him company stock at a low price if he buys it within three months. After some thought, Sylvestor buys \$1,000 worth of Internet stock, \$1,500 worth of blue chip stocks, and \$800 worth of stock in a promising new sportswear company that reinvests its earnings in new growth. He keeps the remaining \$750 to buy company stock from his boss. Finally, he sits back and hopes for a bull market.

1. (a) Which of Sylvestor's stocks probably trades over-the-counter? \_\_\_\_\_
- (b) On the NYSE? \_\_\_\_\_
2. (a) For which investment potential does Sylvestor receive a prospectus? \_\_\_\_\_
- (b) An option? \_\_\_\_\_
3. From which stock may Sylvestor expect capital gains rather than dividends? \_\_\_\_\_
4. Why would Sylvestor hope for a bull market? \_\_\_\_\_