

The Stock Market Game™

Week In Review

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It's a small world after all... China's [move](#) to tighten credit by ordering its banks to hold greater reserves and continued concerns about how Europe will deal with the debt crisis in Greece sent US and global stock markets lower. The China news ended a four day winning streak for European stocks, which had rallied on the news that the European Union would put forth a plan to save Greece from defaulting on its debt, but a plan released Thursday lacked specifics, casting [doubt](#) in investors' minds. Lower than expected growth in the Euro Zone didn't help matters either. A [rise](#) in US retail sales did little to stop the bleeding.

However, money has to go somewhere and in times of crisis many roads lead to [bonds](#), whether in the US or around the world. As we mentioned last week, [economic growth](#) is critical to higher stock prices. If investors feel economic growth is on the way or will continue, they're willing to risk money in the stock market. If not, they search for safer more predictable assets like [investment grade](#) bonds. Money leaving the stock market for safer investments means lower stock prices. So what does this have to do with Greece and China?

It's all about the interconnectedness of the global economy. For several decades after World War II, the United States was, bar none, the economic growth engine of the world. There was an old saying that if the US economy caught a cold (i.e., a recession), the world got the flu. The opposite was also true. As the US economy recovered, other nations around the world began to grow again as well. So, effectively, because our internal demand was so great, the US didn't need to worry as much about economies abroad. That began changing over the last three decades.

Since the 1980s, the US negotiated and signed many [trade agreements](#) that made it easier for us to sell our goods and services to other countries and easier for them to sell to us. We also allowed countries like China to join the [World Trade Organization](#). The free trade policies the US embarked on (a.k.a, globalization) helped our own economy to grow, but also allowed many other countries around the world to grow and prosper as well. We trade with these countries now and, consequently, our growth is dependent on a growing world economy. Investors this week are concerned that Greece's runaway government borrowing and China's tightening of credit will threaten world economic growth, which will in turn threaten US economic growth. Hence, lower stock prices and moves into safer investments such as bonds.

Many believe, especially unions, that our free trade policies were a mistake. And there is no denying that our free trade policies have sent less skilled jobs to other countries, but there have been benefits as well. Free trade policies have enticed companies like Toyota, which was also in the [news](#) this week, to build plants in American cities and our technology companies were free to sell their computers, software, cell phones and gadgets around the world. So the debate rages on.

To help your students learn about the globalization of the economy, the Stock Market Game has a project in the [Teacher Support Center](#) for high school students called "Across the Globe", which examines the pros and cons of globalization. Click on the "Projects" link on the homepage after you login, and then choose "Overarching" in the first field and then "High School" in the third field, then click the Next button. "Across the Globe" is the first file on the list. For younger students, an "In the News" newsletter entitled, "Trading Jobs" can be used in your classroom. It's also available in the [Teacher Support Center](#) via the "Publications" link.