What is a Stock? or, Who Owns McDonald's?

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***Learning from the Market: Integrating SMG Across the Curriculum*, Lesson 3**

Lesson Description

INTRODUCTION
Private ownership is fundamental to the operation of a market economy. This lesson introduces the idea that individuals can become owners of a business by purchasing stock.

ECONOMICS BACKGROUND
People who buy stock in corporations are owners of that corporation. They risk their money (personal wealth) on the success of the business. Any business is risky because the future is uncertain. The owners of the business bear that risk. If the business succeeds, the owners benefit.

LANGUAGE OF ECONOMICS
Economize: To base decisions on an assessment of costs and benefits, choosing the best combination of costs and benefits from among the alternatives.

Ownership: The right to use something and enjoy its benefits.

Profit: The difference between revenues and the costs entailed in producing or selling a good or service; it is a return for risk-taking.

Risk: The chance of losing money. Risk is the opposite of safety.

Stock: A share of ownership in a company. Owners of stock receive part of the company's profits-or bear some of its losses-up to the amount of money they put into the stock.

Grade Levels

Grades 6-12

Economic Concepts

- Profit
- Choice
- Incentives
- Risk

Content Standards and Benchmarks

National Standard Number: 2
Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something: few choices are "all or nothing" decisions.

National Standard Number: 4
People respond predictably to positive and negative incentives.

National Standard Number: 14
Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

CROSS CURRICULUM SKILLS
Students develop skills in reading, listening, group participation, and writing.

Objectives

- Students explain that a stock is a share of ownership in a business.
- Students explain that a company's risk is assumed by those who own it.
- Students explain that owners of stock are entitled to a share of a company's profits.
- Students describe the risk that a company's owners assume when the business introduces a new product.
- Students make decisions regarding stock ownership, weighing expected benefits against expected costs.

Materials (See Activities below)

- Activity 1, Stock Ownership: A Delicious Topic
- Activity 2, Happy Birthday, Cookie
- Activity 3, Thank you note

Time Required

One class period

Procedure

1. Explain to students that today they will learn what a stock is and how stock ownership provides limited risks and potential rewards to investors
2. Ask the students if they know anyone who owns something. *(Everyone owns something: clothes, books, cars, businesses.)* Have students provide examples of ownership they are familiar with. Find out whether any students know people who own businesses.
3. Why do people like to own things? *(Private ownership is a powerful incentive. It allows people to enjoy the benefits of what they own.)*
4. Ask: Can people legally do anything they want with items they own? To prompt discussion, provide a few problematic examples-e.g.,

1. Can you drive on the left side of the road with your car?
2. Can you use your clothes to tie up a student and lock him or her in a locker?
3. Can you use your books to start a fire in someone's living room?
4. Can you use your makeup to color over the computer monitor screen in school?
(The answer is no to each question. Each of these activities is illegal.)

5. Ask: What does ownership mean? (*It establishes who gets the benefits associated with the items and who bears the responsibility for what happens with them. You get to drive your car - no one else may without your permission - but you are responsible for driving legally and answering for any harm you cause when you use the car. Ownership means that privileges and responsibilities are clearly defined.)*
6. Distribute Activity 1, Stock Ownership: A Delicious Topic, to the class. Ask students to read it individually. Their purpose is to identify the costs and benefits of stock ownership. Ask:

   1. How many people own McDonald's? *(226,656)*
   2. Why would people wish to buy McDonald's stock? *(They hope to share in the profits and increase their wealth.)*
   3. How do you become an owner of McDonald's? *(Buy McDonald's stock.)*
   4. What are the benefits of stock ownership? *(Owners may share in the profits in the company.)*
   5. What are the risks of stock ownership? *(Owners may lose some or all the money used to buy stock.)*
   6. Will McDonald's accept Toad's suggested menu? *(McDonald's is not ready for ants, mosquitoes, or earthworm parts-even if they are dipped in chocolate.)*
   7. How do profits help McDonald's? *(Profits help by increasing dividends paid to stockholders and expanding the number of restaurants.)*

7. Divide the class into groups of three. Distribute Activity 2, Happy Birthday, Cookie. Ask students to use the information in Activity 1 as they answer the questions in Activity 2. Discuss the answers in class.

   1. When Nabisco introduced its new cookies in 1912, Nabisco stockholders assumed a risk that was similar to Toad's risk in wanting to sell chocolate insects. What was that risk? *(They risked losing money when the company introduced the new cookies. Neither Toad nor Nabisco knew that customers would buy enough of their products.)*
   2. Why were stockholders willing to assume this risk? *(They thought they could earn a profit.)*
   3. Did the risk-taking turn out to be worthwhile for Nabisco's stockholders? Why or why not?*(Yes and No. Stockholders have earned profits from the Oreo cookie, but they lost money on the other two cookies.)*
   4. Did the risk-taking by Nabisco's stockholders benefit the company's customers and employees? Why or why not? *(Customers have benefited by obtaining products they enjoy and the company's employees have benefited by having a place to work and earn income.)*
   5. If you owned stock in the company, would you be entitled to take a package of Oreos from the supermarket whenever you wanted? Why or why not? *(No. I would own only a tiny fraction of each cookie, building, or machine belonging to the company.)*

8. Distribute copies of Activity 3, Thank-You Note. Remind the students that every economic choice involves weighing expected costs against expected benefits. For home-work, ask students to read the directions and write Aunt Elizabeth a thank-you note that demonstrates that they understand the answers to the questions in Activity 2

Closure

Review the main points of the lesson: 1. A stock is a fractional share of ownership of a business. 2. Stock owners are entitled to a share of a company's profits. 3. There is risk in owning any company, and stockholders share that risk. 4. Introducing a new product is a risky venture for companies.

Assessment

Multiple Choice Questions 1 1. What benefits do you receive from owning a share of a company's stock? a. You may vote for members of the board of directors. b. You receive a share of profits if the company does well. c. You might lose your home or car. *d. Answers "a" and "b" are correct. 2. Who decides what products will be produced by a company with many stockholders? a. The owners *b. The managers c. The customers d. The employees 3. Who decides what products will be produced by a company with many stockholders? a. The owners *b. The managers c. The customers d. The employees ESSAY Most of us are aware of successful products that companies make - Coke, hamburgers, head-lights, and personal computers, for example. But not all ideas succeed in the market. What would happen if a company decided to sell a soft drink that tasted like baking soda? Discuss this question in a short essay. (Customers tend to prefer soft drinks that are sweet and thirst-quenching. A baking soda taste would not taste sweet or quench anybody's thirst, so customers would probably choose not to buy it. The company would not make money selling it. Employees would lose their jobs making it. Managers would discontinue production of the beverage and use the resources to produce some-thing different. Owners would share in the loss the company suffered in making the product.) LETTER Think of one company whose shares you would be willing to purchase. Spend a few minutes writing descriptive notes to yourself about two popular products made by that company. Then write a letter to Maria explaining under what conditions stock in this company might be a smart buy.

Activity 1

STOCK OWNERSHIP: A DELICIOUS TOPIC

Name_________________________   Date _________________________

Toad is Maria's best friend, but sometimes his impractical schemes are a bit much, even for Maria. Yesterday was a good example. He embarrassed her at McDonald's just because he was ignorant about stock ownership and insects.

Stock ownership and insects? Yes. It all started when Toad stopped by Maria's house and asked her to go to lunch at McDonald's. "Nothing like fries and a burger and something special for lunch," he said, as they walked over ot the local Golden Arches.

"Something special?" she asked. But he just ignored her as he hopped along, carrying a carefully folded brown bag.

At the restaurant, Toad offered to buy lunch. He asked maria to find a table and to guard his brown bag. "Don't look inside, it's a surprise," he said. That should have been enough warning, Toad buying lunch and asking her to guard a brown bag; but she just went along with everything because he brain was temporarily locked in the numb position.

Shortly he joined her at the table with the food and a sour mood. "What is the matter?" she asked. "Didn't they give you good service?"

"Oh, yes," Toad grumped, "but apart from the service she was so uncooperative! I said I wanted to see the owner about this great idea of mine, but she said she was the local *franchise* owner. I said, 'so you own all the McDonald's in the world?' And she said, "No, it is impossible to talk to those owners.' Then she started waiting on the next customers. She's so rude!" Toad moaned.

"Actually," Maria replied, "she is right. There are 226,656 owners of McDonald's. Maybe you should become an owner."

"That's a great idea," Toad replied. "Then I could have the restaurants serve my favorite foods and I could eat free. If I own the business, then I get to run it my way, right?"

"Not exactly," Maria replied. "I learned a lot about ownership and business by surfing the Internet. If you want to become a part owner of McDonald's, all you have to do is buy stock in that company. You become a part owner of the company, but many other people will also have bought stock in the company. So you are only one of many people who share its ownership. That's why stocks are called shared."

"But I could only eat a tiny share of all the food McDonald's cooks each day," said Toad. "As a part owner, couldn't I eat part of their food?"

"No, you couldn't. McDonald's has close to 694 million shares of stock. That means that the ownership of every hamburger McDonald's produces is really divided into 694 million parts. If you buy one share of stock then you would own one of 694 million parts of each hamburger."

"That's hard to imagine," said Toad. "That little bit wouldn't fill me up."

"And the same would be true for the company's buildings, stoves, and furniture. You would own only one 1/694 millionth of each thing."

"Well, maybe I could decide what food to put on the menu if I were an owner of McDonald's stock," Toad said. "They are really missing a sure bet by not offering a more varied menu."

"Actually, you can't do that either," Maria replied. "For each share of stock, you get one vote for the company's top managers, or directors. With so many owners or stockholders, you by yourself would not have a big influence on what the company offers as its menu. Actually, managers run the company for you and the other stockholders."

"So what *would* I get for buying a share of stock in the company?" asked Toad. "It doesn't sound like much of a deal to me."

"Each share of ownership entitles you to some of the profits the company earns," she explained. "But profit is not a sure thing. If people don't like the food, the company wouldn't earn enough money to cover the costs and earn a profit. Any business is risky because the future is uncertain. A company could spend lots of money for buildings, equipment, or developing a new product. But if customers don't like the product or if prices are too high or products of other restaurants are more attractive, business income will be too low. Success is never a sure thing, so there is always a chance of loosing your money. Any business is risky and someone has to bear that risk. That's what stockholders do as owners of a business."

"Sounds exciting," said Toad. "So why buy a stock and risk losing money?"

"Because you can make a gain also. You think the business will earn a profit on the product, so you take the risk. The possibility of earning a profit gives the owners and managers of a business an incentive to produce something consumers want to buy at a price they are willing to pay. If the business succeeds, its owners will earn a profit. That is the reward stockholders get for risking their money. Customers also benefit because they get something they like. Employees of the business benefit because they have a place to work and earn income. It's like they're all on one big team with the same goal. But owners are the only ones who risk their own money on whether the goal is accomplished."

"So by buying a stock," Toad said, "I become a business owner who takes part of the risk that the company might fail. But if the company succeeds, I may get some of the company's profit. I'd like to do this, because I know McDonald's could make a profit from my new menu idea. It's tasty, inexpensive to produce, and everyone in my family likes it."

Then Maria asked the fatal question. "Toad," she said what is the food you think McDonald's should have on its menu?"

"Look at this great stuff!" Toad shouted as he opened the bag and dumped the contents onto their food plates." Over at Windy Willows Community Center where all my relatives live, this is our favorite food. Try some. It's got chocolate on it. I know you will like it."

The food was very small--bite sized--and very tasty. The chocolate taste dominated, but Maria noticed an unusual aftertaste that was not unpleasant. Other people sitting nearby were interested, so Toad also shared it with them. Even the franchise owner came over to see what the fuss was about and tried some. Everything was going great until someone asked, "What is this food?"

On the way home Maria was mad enough to spit. "How could you embarrass me that way? You know most people do not like to eat ants, flies, mosquitoes, and earthworm parts. Now we can never go back to that McDonald's Restaurant! I know for sure McDonald's will never hire you to decide on their food menu. Can you imagine what would happen to their sales if they served your food?"

"I'm sorry," Toad replied. "I just thought that the chocolate flavor would take care of the problem."

Questions for Discussion

1. How many people own McDonald's?
2. Why would people wish to buy McDonald's stock?
3. How do you become an owner of McDonald's?
4. What are the benefits of stock ownership?
5. What are the risks of stock ownership?
6. Will McDonald's accept Toad's suggested menu?
7. How do profits help McDonald's?

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Activity 2

HAPPY BIRTHDAY, COOKIE

Name__________________________ Date ____________________

Directions: Read the following story and answer the questions that follow:

When April 2 rolls around again, why don't you celebrate the birthday of an old friend? On that day in 1912, the Nabisco company announced "three entirely new varieties of the highest class biscuit packed in a new style." The company descirbed the new cookies--or biscuits, as they were then called--in the following way: The Mother Goose biscuit was "a rich, high class biscuit bearing impressions of the Mother Goose legends"; the Veronese biscuit was "a delicious, hard sweet biscuit of beautiful design and high quality"; and, finally, the Oreo was "two beautifully embossed, chocolate-flavored wafers with a rich cream filling."

The Oreo has become a familiar friend to all of us, but the other two "biscuits" were never popular. So Nabisco stopped producing them after a few years. It was not hte Mother Goose or the Veronese cookie that rose to fame and is now dunked in mil, crumbled in ice cream, or rolled into hungry mouths.

Because people like Oreos so much, the company sells more than five billion of these little sweeties every year. But where did the unusual name Oreo come from? Maybe it came from the first chairman of the National Biscuit Company, Adolphus Green. He knew that *oreo* was the Greek word for mountain and that in early testing the cookie actually looked like a little mountain. Or perhaps the name came from the word *or*, which means gold, an important color on the original label.

We don't know where the name came from, but we do know that Nabisco was one smart cookie when it came up with the Oreo. But being top cookie is tough. Who knows what might happen? Consumers could start eating fewer sweets, and the company's production costs could push prices out of reach for many buyers. The business is also very competitive, for there is always another tough cookie ready to take Oreo's place in our hearts and stomachs. But, so far, Oreo hasn't crumbled.

Questions for Discussion

1. When Nabisco introduced its new cookies in 1912, Nabisco stockholders assumed a risk that was similar to Toad's risk in wanting to sell chocolate insects. What was the risk?
2. Why were stockholders willing to assume this risk?
3. Did the risk-taking turn out to be worthwhile
4. Did the risk-taking by Nabisco's stockholders benefit the company's customers and employees? Why or why not?
5. If you owned stock in the company, would you be entitled to take a package of Oreos from the supermarket whenever you wanted? Why or why not?

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Activity 3

THANK-YOU NOTE*

Name________________________ Date __________________

After talking with Toad, Maria thought some more about stocks, profits, and risk. She thought about the $500.00 her Aunt Elizabeth had given her as a gift for making the school honor roll. She talked to her parents about what to do with the money and then she decided to invest it in stock.

Pretend that you are Maria. Write a letter to your Aunt Elizabeth in the space below and thank her for her gift. Explain that you have decided to use the money to help buy shares of stock in a business. Aunt Elizabeth might be made uneasy by the news of your decision to buy stock. She keeps all her extra money in a savings account. Anticipate Aunt Elizabeth's concerns. Explain why you think you are making good use of the money, even though stock ownership involves risks.

Dear Aunt Liz,

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