

Dear Teachers and Stock Market Game Participants:

The markets entered more positive waters this week helping to brush off concerns from last week's gloomy unemployment numbers (if only we could also improve the current gloomy weather on the East Coast). U.S. stocks continued to climb toward new highs for 2009 after an unexpected narrowing of the [U.S. trade deficit](#). The deficit narrowed to \$30.7 billion in August from a revised \$31.9 billion in the previous month, the White House reported this morning. The Federal Reserve Chairman, [Ben Bernanke](#), also reported this week that while interest rates will stay low for awhile, the Fed will have to start boosting rates as the recovery picks up, in order to fight off the threat of inflation - further signaling potential economic recovery.

In last week's Week in Review we highlighted the role of the Federal Reserve Bank and why its policies have such a great impact on the overall economy and the individual investor. We mentioned that to keep the U.S. economy growing, the Fed needs to focus on achieving three goals: low inflation, high employment, and moderate and stable long-term interest rates. This week we'll take the discussion a step further and discuss the concepts of inflation vs. deflation as both concepts are frequently in the news. For many of your Stock Market Game* students, these terms may sound familiar, but the particulars may be foreign.

Basically, inflation is determined by how much money is available in the economy. This amount of money is largely determined by how much people get paid for work and how easy it is for them to borrow money. Inflation is also viewed as the persistent increase in the cost of goods and services or the persistent erosion in the purchasing power of the dollar. Either way, inflation is the opposite of stable prices. Since [wages](#) have not gone up much in recent years, and the current job market is quite depressing, and given how difficult it is to borrow money because of the current financial situation, it is unlikely that inflation will increase in the short term. In fact, the larger concern at the present time is deflation.

Deflation, the opposite of inflation, refers to the gradual drop in the cost of goods and services, usually caused by a surplus of goods and a shortage of cash. Although deflation seems to increase your buying power in its early stages, it is generally considered a negative economic trend as it's typically accompanied by rising unemployment, falling production, and limited investment (sound familiar?).

For more information about inflation and deflation and the Fed's role in controlling both, be sure to take a look at *The Fed's Fix*, *A Plea to Mr. B*, and *Chicken Stock*, all issues of *In the News* located in the "Publications" section of the [Teacher Support Center](#).

Next week we will highlight quarterly earnings as we enter into third quarter earnings season.

Have a great weekend!

Elizabeth Reidel
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The Stock Market Game

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