BANKS AND BANKING

276. A **bank** is an institution that deals in money and credit. **Credit** is a promise to pay money in the future. The chief **instruments** of credit are **checks**, **drafts**, and **notes.**

It is a mistake to say that banks deal only in money. Their most profitable business is in credit transactions. Banks, however, have a capital of their own which serves as a guarantee fund. Neither do all bank deposits represent money intrusted to banks by individuals. Most of them represent credit loaned to individuals by banks. Thus, if a bank accepts a promissory note for $5000, it may give in return a deposit credit for $5000 less the discount and will thereby add that sum to its deposits.

277. There are several kinds of banks, among which are **national banks,** organized under the National Banking Act of 1863 and the amendments that have been made thereto; **state banks,** organized under the laws of the state in which they are situated; **savings banks**, and **private banks.**

278. National banks are subject to rigorous supervision by federal authorities. All banks organized under state laws are subject to similar supervision by state authorities.

279. The chief functions of banks are to receive deposits, to lend money on promissory notes, bonds, and mortgages, to discount merchants' notes before they are due, and to buy, sell, and collect drafts or bills of exchange. National

banks also issue bank notes which circulate as a medium of exchange. Savings banks and a few others allow interest on deposits.

280. On opening an account with a bank, the customer is usually given a pass book in which the dates and amounts of all deposits are entered on the credit side. If the customer wishes to draw money from the bank, or to pay a debt, he fills out a check similar to the following, and the dates and amounts of all such checks are entered on the debit side of his pass book:

No.------ *New York,--------------------190---*

Fourth National Bank of New York

Pay to Ralph M. Brown-------or order $500.00---

Five hundred------------------------------$\frac{no}{100}$ Dollars.

--------George E. Fox.-------

George E. Fox is the drawer or maker of this check, and Ralph M. Brown is the payee.

281. As in the case of promissory notes, checks may be made payable to **payee or order**, or to **payee or bearer.** The same rules of indorsement apply. When the depositor wishes to draw money at the bank, the check is made payable to **self.**

282. Banks also issue certificates of deposit:

CERTIFICATE OF DEPOSIT

With interest at the rate of 2 per cent per annum if left three months, 3 per cent per annum if left six months. Interest hereon will cease one year from date. No interest paid for fractional part of a month. This certificate not subject to check.

No.____ Ypsilanti, Mich.______________190___

______________________ha___deposited in the

First National Bank of Ypsilanti,

________________________________Dollars,

payable to the order of________________________

subject to the rules of this Bank, on the return of this Certificate, properly endorsed.

______________________ ______________________
Cashier. Teller.

The money deposited on such a certificate is not subject to check and can be withdrawn only upon the presentation of the certificate properly indorsed.

EXERCISE 66

1. Write a check for $35.75 in each of the forms indicated above, with yourself as drawer and Robert Lyons as payee. If necessary, indorse the check as when presented for payment.

2. July 22, 1903, a man deposits $125 in a savings bank. The bank pays 3% on money left on deposit 3 mo., and 3½% if left 6 mo. or longer. Money must be deposited the first of the month to draw interest for that calendar month. If the money is drawn out Nov. 1 and interest paid for full months, how much does the man receive? if drawn out Dec. 22? if drawn out March 1, 1904?

3. A man owns a certificate of deposit for $500 dated Aug. 1, 1903. Feb. 1, 1904, he presents the certificate and draws $200. What is the face of the new certificate issued?

4. Show that the following statement of the resources and liabilities of a savings bank will balance.

RESOURCES

Loans and discounts		$946,542.72
Bonds, mortgages and securities		504,171.35
Premiums paid on bonds		1,218.75
Overdrafts		1,471.70
Furniture and fixtures		13,801.50
Other real estate		85,337.01
Items in transit		13,409.02
Due from banks in reserve cities	$214,193.14	
Exchanges for clearing house	20,742.41	
U. S. and National bank currency	70,470.00	
Gold coin	68,200.00	
Silver coin	2,365.00	
Nickels and cents	83.28	

LIABILITIES

Capital stock paid in		$200,000.00
Surplus fund		36,000.00
Undivided profits, net		19,781.58
Commercial deposits	$609,991.33	
Certificates of deposit	94,897.63	
Due to banks and bankers	192,674.51	
Certified checks	12,124.52	
Cashier's checks	10,455.21	
Savings deposits	696,425.79	
Savings certificates	69,655.31	

283. If his financial standing is high, a person may borrow money from a bank by giving his individual note. The bank may, however, ask for **security**. In this case the borrower must have some responsible person indorse the note, or he must deposit **collateral security** in the form of stocks, bonds, etc.

284. The following is a common form of a bank note:

> *200\frac{no}{100}$* *Detroit, Mich., Sept. 6, 1904*
>
> *Three months after date, I promise to pay to the order of*
>
> *The Commercial National Bank*
>
> *Two hundred and $\frac{no}{100}$ Dollars at The Commercial Natl. Bank of Detroit, Mich., with interest at 6 per cent per annum until due, and seven per cent per annum thereafter until paid.*
>
> *Value received.*
>
> *Jacob H. Rowe.*

If Mr. Rowe wishes to borrow $200 he takes the above note to the bank and, if necessary, either furnishes an indorser or collateral security, such as bonds, etc., which he assigns to the bank. If the bank authorities are satisfied, he receives $200 – $3 = $197, the interest for 3 mo. being deducted. This interest is called **bank discount**. Days of grace are now rarely used by bankers.

285. In discounting notes, banks count forward by days or months as stated in the note and usually reckon 360 days in the year. Thus, a note dated July 22 at 60 days will mature July 22 + 60 days, or Sept. 20. A note dated July 22 at 2 mo. will mature Sept. 22.

I forgot my checks.

EXERCISE 67

Each of the following notes is discounted on the date of issue. Find the date of maturity and the discount.

	Date of Note	Time	Face	Rate
1.	Jan. 2, 1905	60 da.	$1000	6%
2.	Aug. 14, 1905	3 mo.	$525	5%
3.	Aug. 1, 1905	90 da.	$387.50	6%
4.	April 20, 1905	30 da.	$500	6%
5.	June 27, 1905	2 mo.	$325	7%

286. Business men frequently take notes due at some future date from their customers, and in case money is needed before the notes are due, sell them to a bank. (Such a note is shown on page 179.) The seller must give satisfactory security. The bank pays the sum due at maturity less the discount from the date of discount to the date of maturity. The sum paid by the bank is called the **proceeds**. These notes may or may not bear interest. The following examples will illustrate both cases:

Ex. 1. A note for $527.30, dated Aug. 31, 1904, due in 90 da., without interest, was discounted at the bank Oct. 10, at 6%. Find the proceeds.

Solution.		
	Face of note	= $527.30
	Discount for 50 da.	= 4.39
	Proceeds	= $522.91

Ex. 2. A note for $378.50, dated Aug. 1, 1904, due in 4 mo. at 6%, was discounted at the bank Oct. 1, 1904, at 6%. Find the proceeds.

Solution.		
	Face of note	= $378.50
	Interest for 4 mo.	= 7.57
	Amount discounted	= $386.07
	Discount for 2 mo.	= 3.86
	Proceeds	= $382.21

EXERCISE 68

Find the discount and proceeds of each of the following non-interest bearing notes:

	Face	Date	Time	Date of Discount	Rate of Discount
1.	$500	July 1	30 da.	July 10	7%
2.	$225.75	April 10	2 mo.	May 1	6%
3.	$253.30	Dec. 14	90 da.	Jan. 2	6%
4.	$150.40	Aug. 12	60 da.	Sept. 5	5%
5.	$1250	Nov. 1	3 mo.	Dec. 1	6%

Find the discount and proceeds of each of the following interest-bearing notes:

	Face	Date	Time	Rate of Interest	Date of Discount	Rate of Discount
6.	$1500	Aug. 10	90 da.	6%	Sept. 1	7%
7.	$97.30	Oct. 2	60 da.	7%	Nov. 1	6%
8.	$152.20	Sept. 4	4 mo.	5%	Oct. 20	6%
9.	$750.50	Jan. 4	30 da.	4%	Feb. 1	7%
10.	$431.40	June 17	2 mo.	6%	July 10	6%

11. A merchant's bank account is overdrawn $2150.75, and he presents to the bank the following notes, which are discounted Dec. 5 at 6% and placed to his credit. What is his balance?

Face	Date	Time	Rate of Interest
$500	Nov. 12	60 da.	5%
$1250.25	Sept. 30	90 da.	4%
$727.40	Oct. 25	3 mo.	no interest

12. For how much must I give my note at the bank, discounted at 6% and due in 60 da., to realize $1500?

Suggestion. Find the proceeds of $1 discounted at 6% for 60 da. and divide $1500 by the result.

EXCHANGE

287. The subject of exchange treats of methods of canceling indebtedness between distant places without the actual transfer of money. This may be accomplished in any one of the following ways:

(1) **By Postal Money Order.** Money orders may be sent for any amount from 1 ct. to $100. The rates are:

For orders for sums not exceeding	$2.50	3 cents.
If over $2.50 and not exceeding	$5.00	5 cents.
If over $5.00 and not exceeding	$10.00	8 cents.
If over $10.00 and not exceeding	$20.00	10 cents.
If over $20.00 and not exceeding	$30.00	12 cents.
If over $30.00 and not exceeding	$40.00	15 cents.
If over $40.00 and not exceeding	$50.00	18 cents.
If over $50.00 and not exceeding	$60.00	20 cents.
If over $60.00 and not exceeding	$75.00	25 cents.
If over $75.00 and not exceeding	$100.00	30 cents.

(2) **By Express Money Order.** The rates are the same as for postal orders. The company is responsible for the payment to wrong persons.

(3) **By Telegraphic Money Order.** In addition to the regular telegraphic charge for a 15-word message between the two places, telegraph companies make transfers of money between their offices subject to the following charges:

For orders for sums not exceeding	$25	25 cents.
Over $25 and not exceeding	$50	35 cents.
Over $50 and not exceeding	$75	60 cents.
Over $75 and not exceeding	$100	85 cents.

Add 20¢ for each $100 or fractional part thereof after the first $100 up to and including $3000.

(4) **By Check.** A personal check on a home bank where the sender has money deposited can be sent. This check, when properly indorsed by the payee and presented at his bank, will probably be cashed without charge. The bank may charge a small fee, called **exchange**, for collecting.

(5) **By Bank Draft.** The ordinary form of bank draft is as follows:

No. 42,786

Central Savings Bank

$135 $\frac{75}{100}$ *Detroit, Mich., Sept. 6, 1905*

Pay to the order of James H. Kastle------------

One hundred thirty-five and $\frac{75}{100}$---------- *Dollars.*

To The Fourth National Bank
of the City of New York.

George M. Case
Cashier.

The draft differs from the check in that it is drawn by one bank on another, while the check is drawn by an individual on a bank where he has money deposited.

288. Most banks keep money on deposit in some bank called a **correspondence bank**, in a large commercial center like New York or Chicago.

If a customer of a local bank in the West wishes to pay a debt in the East, he buys a draft, signed by the cashier of the local bank, and drawn against the correspondence bank in New York City. This draft will pass as cash at any bank. The above draft is drawn by the Central Savings Bank of Detroit, and the correspondence bank is the Fourth National Bank of the City of New York.

289. The following is another form of a draft, called the **commercial draft.**

$1000 $\frac{no}{100}$ *New York, Aug. 15, 1903.*

At sight pay to the order of **First National Bank**

One thousand and-------------------- $\frac{no}{100}$ *Dollars.*

Value received, and charge the same to the account of

To Hawkes & Co., *American Book Co.*
Detroit, Mich.

Hawkes & Co. owe the American Book Co. $1000 past due. The American Book Co. draws the above sight draft payable to the order of the First National Bank of New York, and deposits it for collection. The First National Bank sends it to a Detroit bank to collect. The Detroit bank demands payment of Hawkes & Co. If payment is made, the money is remitted to New York. If payment is refused, the draft is returned to the New York bank, and the American Book Co. is notified. Some other means of collecting must then be employed.

290. If the account against Hawkes & Co. were not due for 60 days, the draft would read as follows:

$1000 $\frac{no}{100}$ *New York, Aug. 15, 1903.*

At sixty days sight pay to the order of **First National Bank** *One thousand and*------------------ $\frac{no}{100}$ *Dollars.*

Value received, and charge the same to the account of

To Hawkes & Co. *American Book Co.*
Detroit, Mich.

This draft is called a **time draft** and would be taken to Hawkes & Co. as before, who, if they intended to pay it, would write across the face in red ink:

Accepted Aug. 21, 1903.
Hawkes & Co.

After writing these words across the draft, Hawkes & Co. have agreed to pay $1000, and the draft becomes the same as a promissory note.

291. Fluctuations of Exchange. If the banks of San Francisco have sold drafts for a larger sum on the New York banks than they have on deposit in New York, it will be necessary to send money enough to New York to balance the account. The money is usually sent by express at some expense, which must be borne by the purchaser of the drafts. In this case a draft on New York would cost slightly in excess of its face. This excess is called a **premium**. A draft sold at less than its face is said to be sold at a **discount**.

Premiums and discounts are usually quoted as a per cent of the face of the draft. Thus, a quotation of $\frac{1}{10}$% premium means that a draft for $100 may be purchased for $100.10. Sometimes the quotation is a certain amount per $1000. Thus, if New York exchange is quoted at $1.50 premium at New Orleans, a draft for $1000 will cost $1001.50.

The above quotations refer to sight drafts. Time drafts are discounted by banks in the same manner as promissory notes.

New York City is the greatest financial center of the United States, and so much business is transacted through the New York banks that New York exchange is generally at a premium. Consequently banks are always willing to cash such checks at par value. People in New York usually pay their indebtedness outside of the city by checks or drafts on New York banks, which find a ready sale at any bank.

292. The Clearing House is an institution organized by the banks of every large city to facilitate settlement of claims against one another.

Clerks from each bank bring daily to the clearing house the checks, etc., due them from all other associated banks, each bank being represented by a separate package. Balances are struck between the credits and debits of each bank against all others, and the manager certifies the amount which each bank owes to the associated banks or is entitled to receive from them. The banks whose debits exceed their credits pay in the balance to the clearing house, which issues clearing house certificates to the banks whose credits exceed their debits. In the New York Clearing House, which is the largest in America, nearly sixty billion dollars of clearings were made in 1904, with only three billions of dollars of balances paid in money.

EXERCISE 69

1. A quotation of $2.50 premium is equivalent to what per cent?

2. What is the cost in Kansas City of a draft on New York for $67.50 at $\frac{1}{4}$% premium?

3. What is the cost in Galveston of a draft on New York for $4380.50 at $2.50 premium?

4. In Ex. 2 and Ex. 3 which city is owing the other money?

5. Find the cost of a draft for $500 payable in 60 days after sight, exchange being $\frac{1}{4}$% premium, interest 6%.

6. Find the cost of sending $67.50 by telegraphic money order if a 15-word message costs 50 ct.

7. How much would it cost to send the same amount by postal money order? by express money order?

8. A draft on New York for $10000 costs $9980 in Chicago. Is exchange at a premium or a discount? What is the rate of exchange? The balance of trade is in favor of which city?

9. A merchant has a 60-day note for $1200 discounted at the bank at 6% and purchases a draft with the proceeds,

exchange $1.00. He sends the draft to a creditor to apply on account. How much is placed to his credit?

10. A Chicago banker discounts a draft for $2500, payable at St. Louis 60 days after sight. What are the proceeds, exchange at $\frac{1}{2}\%$ discount, interest 6%?

FOREIGN EXCHANGE

293. **Foreign exchange** is the same in all essential features as domestic exchange, the difference being that exchange takes place between cities in different countries.

294. A draft on a foreign country, usually called a **bill of exchange**, is payable in the currency of the country on which it is drawn.

295. Foreign bills of exchange are generally written in duplicate, called a **set of exchanges**, and are of the following form:

> *New York, Aug. 19, 1903.*
>
> *Exchange for £100.*
>
> *Ten days after sight of this first of exchange (second of same date and tenor unpaid) pay to the order of ---------------- E. H. Mensel ----------------*
>
> *---------- one hundred pounds sterling, ---------- and charge the same, without further advice, to*
>
> *To Baring Brothers,* *George E. Fox.*
> *London.*
>
> *No. 173645.*

The duplicate substitutes "second of exchange" for "first of exchange" and "first of same date" for "second of same date," in the original. Either one being paid, the other becomes void.

296. The **par of exchange** between two countries is the value of the monetary unit of one expressed in that of the other. Thus, the gold in the English pound is worth $4.8665. Exchange on Paris and other countries using the French monetary system is usually quoted at so many francs to the dollar, sometimes at so many cents to the franc. The par of exchange is about $5.18\frac{1}{8}$ francs to the dollar, or 19.3 cents to the franc. Exchange on Germany is quoted at so many cents on 4 marks. The par of exchange is 95.2; quoted in cents per mark it is 23.8.

EXERCISE 70

1. What is the cost of a draft on London for £150, exchange $4.925?

2. What is the cost of a draft on Paris for 1200 francs, exchange 5.20?

3. In either Ex. 1 or 2 is the balance of trade in favor of the United States?

4. A tourist purchased a letter of credit and drew £80 at London, 1500 francs at Paris, 750 marks at Berlin. How much did the letter cost him if exchange is $\frac{3}{4}\%$ premium at London, $\frac{1}{2}\%$ premium at Paris, and $\frac{1}{4}\%$ premium at Berlin?

5. What is the cost of a draft on Leipsic for 525 marks, exchange 96? exchange 24?

6. What is the cost of a draft on London for £75, exchange $4.857?

STOCKS AND BONDS

297. A **corporation** or **stock company** is an association of individuals under the laws of a state for the purpose of transacting business as one person. Large-scale production is now usually conducted by corporations.

A corporation is managed by officers elected by a board of directors who are chosen by the stockholders, each stockholder having as many votes as he owns shares of stock. The **capital stock** is divided into a certain number of **shares**, the **par value** of which is determined by the number of shares into which the stock is divided. Thus, a capital stock of $50000 may be divided into 500 shares of $100 each, or 2000 shares of $25 each, etc. Stockholders may own any number of shares and participate in the profits according to the number of shares they own.

298. If a company is prosperous and makes more than its expenses, a **dividend** is paid to the stockholders. The dividend is usually a certain per cent of the par value of the stock, or sometimes so many dollars per share. If the rate of dividend is higher than the current rate of interest, there usually will be a demand for the stock and it will sell at a **premium**. If the rate of dividend is lower, the demand will be slight and the stock will sell at a **discount**.

299. Companies frequently issue two kinds of stock, **preferred** and **common**. The holders of preferred stock are entitled to first share in the net earnings of the corporation up to a certain amount, usually from 5 % to 7 % of the par value. The holders of common stock are entitled to a share, or all of what is left after the dividend on the preferred stock is paid.

Stock is sometimes issued to the stockholders of a corporation without a corresponding increase in the value of the property. Such stock is called **watered stock.** A corporation may be prohibited by its charter, or by law, from paying dividends in excess of a certain amount. Thus, if a corporation with a capital stock of $100000 makes $16000 and wishes to pay this amount in dividends, but is prohibited from paying more than 8 %, watered stock, equal in amount to the capitalization of the corporation, may be issued to the stockholders and an 8 % dividend (= $16000) may be declared upon this new basis.

300. Since it is difficult for individuals to buy and sell stock personally, the business is usually transacted through a **stock broker**, who charges a small per cent, called brokerage (usually $\frac{1}{8}$%), of the par value of the stock bought or sold. The stock broker generally belongs to an organization called a **stock exchange.** The New York Stock Exchange is the most important in America.

301. Generally each stockholder is responsible only to the extent of the par value of the stock he owns. In the case of national banks, however, a stockholder is liable to the amount of the par value of his stock in addition to the amount paid for the purchase of the stock.

302. Investors often buy stocks and hold them for the dividend they yield. Speculators buy them to sell at a profit. Speculators usually buy on a **margin**, that is, they pay only a part of the purchase price and borrow the rest by depositing the certificate of stock as collateral. A man who buys stock on a 20-point margin pays down 20% of the par value and borrows the rest. A "bull" is a buyer of stocks which he hopes to sell at a profit. He acts on the belief that prices will go *up*. A "bear" is a seller of stocks which he does not possess, but borrows on the belief that prices will go *down*. Thus, if a stock is quoted at 50, a "bear," thinking it will go down to 45, may sell at 50, and deliver borrowed stock to the purchaser. If the stock goes down to 45, he will purchase it and return it to the owner, thus realizing a profit of 5 points. This is called selling stocks "**short.**" Bears are said to be "short" of stock and bulls "long."

303. When for any reason a stock company finds the amount of money paid in by stockholders insufficient, it generally borrows money and issues **bonds**, secured by a mortgage on the property of the company. These bonds are written agreements to pay a certain sum of money within a stated time and at a fixed rate of interest. Bonds have a prior claim over any kind of stock.

304. National governments, states, counties, and cities often issue bonds, but without mortgages, the credit of such organization being considered good.

Registered bonds are issued in the name of the owner, and are made payable to him or his assignee. Interest, when due, is sent direct to the owner.

Coupon bonds are payable to bearer, and have small interest coupons attached, which are cut off when due, and the amount of interest is collected either personally, or through a bank. There is a coupon for each interest period.

Bonds are usually named from the rate of interest they bear, or from the date at which they are payable. Thus, Union Pacific 4's means Union Pacific bonds bearing 4% interest. U.S. 4's reg. 1907 means United States registered bonds bearing 4% interest and due in 1907. Western Union 7's coup. 1900 means Western Union coupon bonds bearing 7% interest and due in 1900.

305. The following quotations show the prices paid for stocks and bonds on a certain day. The daily newspaper will furnish the best source for quotations.

Stocks		Bonds	
Amalgamated Copper	$72\frac{3}{4}$	U.S. New 4's reg.	$135\frac{1}{4}$
A. T. and S. F.	$83\frac{3}{8}$	U.S. New 4's coup.	$136\frac{1}{4}$
A. T. and S. F. preferred	$98\frac{3}{8}$	U.S. 3's reg.	$107\frac{1}{4}$
Canadian Pacific	131	U.S. 3's coup.	108
National Biscuit Co.	$98\frac{3}{8}$	Atchison 4's	$102\frac{7}{8}$
National Biscuit Co. preferred	$105\frac{1}{2}$	N.Y. Central $3\frac{1}{2}$'s	$103\frac{5}{8}$
N. Y. Central	143	C. B. and Q. 4's	$93\frac{1}{2}$
		C. R. I. and P. 4's	105

Stocks		Bonds	
Railway Steel Spring	$33\frac{1}{2}$	Southern Ry. 5's	116
Railway Steel Spring preferred	$87\frac{1}{2}$	Detroit Gas Co. 5's	$106\frac{1}{2}$
U.S. Steel	$37\frac{1}{8}$	Chicago and Alton $3\frac{1}{2}$'s	$76\frac{1}{2}$
U.S. Steel preferred	$37\frac{1}{2}$	Hocking Valley $4\frac{1}{2}$'s	$106\frac{1}{2}$
Wabash	$29\frac{1}{8}$	B. and O. 4's	$100\frac{1}{8}$
Wabash preferred	$50\frac{1}{2}$	U.S. Steel 5's	80
Western Union preferred	$88\frac{3}{4}$		

306. Quotations are usually made at a certain per cent of the par value of the stock or bond. Thus, the quotation of $72\frac{3}{4}$ for Amalgamated Copper means $72\frac{3}{4}\%$ of the par value of one share. The purchaser must pay his broker $72\frac{3}{4} + \frac{1}{8} = 72\frac{7}{8}$, and the seller will receive from his broker $72\frac{3}{4} - \frac{1}{8} = 72\frac{5}{8}$.

307. In the following examples the par value of a share will be taken as \$100 unless otherwise stated. Brokerage at $\frac{1}{8}\%$ must be taken into account in each case where not otherwise stated.

Ex. **1.** A person buys 100 shares of A. T. and S. F. as quoted above, and sells 6 mo. later for $85\frac{1}{8}$, having received a dividend of 2%. Does he gain or lose, and how much, money being worth 6% per annum?

Solution. Each share costs $83\frac{3}{8} + \frac{1}{8} = 83\frac{1}{2}$,
and is sold for $85\frac{1}{8} - \frac{1}{8} = 85$.
$\therefore$ the gain on each share is $85 - 83\frac{1}{2} = 1\frac{1}{2}$, or \$1.50.
$\therefore$ the gain on 100 shares is $100 \times \$1.50 = \$150$.
The dividend received = 2% of \$10000 = \$200.
$\therefore$ the total gain is \$150 + \$200 = \$350.
The amount invested is $100 \times \$83\frac{1}{2} = \$8350$.
The interest for 6 mo. is $\frac{1}{2}$ of 6% of \$8350 = \$250.50.
$\therefore$ \$350 − \$250.50 = \$99.50 = the net gain.

Ex. 2. A man sells short 100 shares of Canadian Pacific at 131 and three days later "covers" (that is, buys the stock) at $128\frac{6}{8}$. What is his net profit?

Solution. Each share sold yields $131 - \frac{1}{8} = \$130\frac{7}{8}$
Each share is bought for $128\frac{6}{8} + \frac{1}{8} = 128\frac{7}{8}$
Therefore the gain on each share is $\$2$
Therefore the net gain on 100 shares is $100 \times \$2 = \$200$.

EXERCISE 71

1. The capital stock of a company is $1000000, $\frac{1}{4}$ of which is preferred, entitled to a 7% dividend, and the rest common. If $47500 is distributed in dividends, what rate of dividend is paid on the common stock?

2. A person buys 302 shares of stock, par value $10, for $7 a share, paying 5 ct. a share brokerage. 6 mo. later, after having received a 5% dividend, he sells for $9.75 a share. How much does he make, money being worth 6%?

3. If, in Ex. 1, $77500 is distributed in dividends, which is the better stock to own, common or preferred?

4. Which is the better property to own, $1000 stock in a company at 6%, or one of its $1000 bonds at 4%?

5. Which is the safer against loss by theft, a coupon bond, or a registered bond? Which is the more readily transferred?

6. Why are U.S. 4's registered quoted at $135\frac{1}{4}$, while U.S. 4's coupon are quoted at $136\frac{1}{4}$?

7. How much will 50 shares of Amalgamated Copper cost?

8. How much will 75 Atchinson 4's cost?

9. How much will 100 shares of New York Central cost?

10. How much will 100 New York Central $3\frac{1}{2}$% bonds cost?

11. Which should you prefer to own, the 100 shares of stocks or the 100 bonds mentioned in Ex. 9 and 10?

12. What is the greatest number of Canadian Pacific shares that can be purchased for $5000?

13. Which is the better investment, a 4% mortgage or Southern 5's as quoted?

14. Which is the better investment, B and O. 4's or U.S. 5's as quoted?

15. What sum must be invested in Atchison 4's at $102\frac{7}{8}$ to secure an annual income of $4120?

16. What rate of income will U.S. 3's registered yield?

17. If I pay $3762.50 for U.S. Steel preferred, how many shares do I buy?

18. How much must I pay for B. and O. 4's to yield an income of 5% on my investment? of 6%?

19. What income will a man receive from an investment of $21625 in U.S. 3's coup.?

20. What dividend can a company declare on a capital stock of $50000 whose net earnings are $7500?

21. A certain bank pays a semiannual dividend of $3\frac{1}{2}$% on its stock; what is the annual dividend on 25 shares?

22. How much must I pay for 5% bonds that the investment may yield 6% income? for 4% bonds? for 3% bonds?

23. A man owns 100 shares of Amalgamated Copper stock. If the company declares a dividend of 5% payable in stock, how much stock will he then own

24. My broker, after selling for me 200 shares of Wabash preferred, remitted to me \$9975. At what price did he sell the stock?

25. How much must be invested in U.S. 3's coup. to bring an annual income of \$500?

26. A bank with a capital stock of \$150000, declares a semiannual dividend of 3%. What is the amount of the dividend, and how much will a person receive who owns 25 shares?

27. A gas company declares a 6% dividend and distributes \$120000 among its stockholders. What is its capital stock?

28. A cement company divides \$80000 among its stockholders. What is the rate of dividend, the capital stock being \$1000000? How much is paid to a person who owns 902 shares of \$10 each?

29. A broker bought for a customer 500 shares of copper stock, par value \$25, at a total cost of \$18015.63. Find the market quotation and brokerage.

30. A man bought 200 shares of New York Central at 143. The market price declined till it reached 139 and then rallied to $141\frac{1}{2}$. Believing that another decline was coming, he sold 500 shares (300 of them short) at $141\frac{1}{2}$. The price continued to rally, however, and he covered by buying 300 shares at $142\frac{1}{4}$. What was the net loss on the whole transaction, making no allowance for interest, but allowing $\frac{1}{8}$% brokerage for each sale and purchase?

INSURANCE

308. There are two general classes of **insurance**: insurance on the **person** in the form of life, endowment, accident, and health insurance, and insurance on **property** in the form of fire, marine, live stock, tornado, plate glass, boiler insurance, insurance against bad debts, etc.

PROPERTY INSURANCE

309. The principal kinds of property insurance are **fire** insurance, or insurance against loss by fire; **marine** insurance, or insurance against loss of vessels at sea, or property on board of vessels at sea; **tornado** insurance, or insurance against loss by storms, etc.

310. The written agreement between the company and the person insured is called the **policy**, and the sum to be paid by the company in case of loss, the **face** of the policy. The person insured is called the **insured**, and the amount paid by the insured to the company for insurance, the **premium**.

311. The premium is usually computed as a certain per cent of the face of the policy, or as a certain sum on each \$100 of insurance. In either case it is called the **rate of insurance**.

Ex. A house valued at \$5000 is insured for $\frac{4}{5}$ of its value at 1.1% per annum. What is the annual premium?