

**Introduction:** Impressed by the rapid rise in value of stock in Springfield's number one drinking establishment, *Moe's Tavern, Inc.*, **Montgomery Burns** (net worth: \$10,000,000) and **Homer Simpson** (net worth: \$10,000) decide to purchase stock in Moe's.

**Burns** purchases 1000 shares in *Moe's Tavern*, paying the full amount of the stock price (\$100/share = \$100,000)

**Simpson** also purchases 1000 shares; however he buys the stock on a *margin of 10*, meaning he puts only 10% down on the stock price (\$100/share x 10% = \$10,000)

Dozens of other middle class citizens (such as **Ned Flanders**, **Krusty the Clown**, and **Seymour Skinner**) of Springfield likewise buy large amounts of Moe's Tavern stock, like Homer on a *margin of 10*. All are financed by the town police and stock exchange agent, Clancy Wiggum, who in turn has a loan from Springfield Savings and Loan to finance *Wiggum Investment Services*. The loan is subject to a *call order* from the bank if shares of stock purchased through *Wiggum Investment Services* decline to 50% of purchase value.

One month later, business continues booming at Moe's Tavern and the value of the stock climbs 20% to \$120/share.

How much of a profit has Mr. Burns made?

**\$20,000**

What is Mr. Burns' net worth?

**\$10,020,000 (20% recent on the original investment)**

How much of a profit has Homer Simpson made?

**\$20,000**

What is Homer's net worth?

**\$30,000 (200% return on his original investment)**

Two weeks later, it is revealed that the CEO of *Moe's Tavern, Inc.* (Moe Szyslak) has run away to Brazil with his mistress, Selma Bouvier, taking with him much of the assets of the corporation. In addition, scandalized patrons of the tavern (such as Barney Gumble) take their entertainment dollars elsewhere (primarily the *Kwik-E-Mart*). As a result, the value of the company's stock drops 50% to \$60/share.

What is the total value of 1000 shares of Moe's tavern stock prior to Moe's abrupt departure from town?

**\$120,000**

How much money did Homer borrow from Clancy to finance his stock purchase?

**\$90,000**

How much of his own money did Homer put down on his stock purchase?

**\$10,000**

When **Moe's Tavern, Inc.** suffers a 50% decline in value, how much is 1000 shares of stock in the company now worth?

**\$60,000**

Can Springfield Savings and Loan issue a call order on its loan to Chief Wiggum?

**No (has to decline to \$50,000)**

After the decline to 50%, what is Mr. Burns' net loss?

**\$40,000 (from original investment)**

**gross loss = \$60,000**

After the decline to 50%, what is Mr. Burns' net worth?

**\$9,960,000**

After the decline to 50%, does Mr. Burns' have to sell his shares of stock?

**No**

After the decline to 50%, what is Homer Simpson's net loss?

**\$10,000**

**gross loss = \$30,000**

After the decline to 50%, what is Homer's net worth?

**-\$30,000 (\$60,000 - \$90,000 loan liability)**

One day later, Ned, Krusty, and Seymour tell Homer they are thinking about selling their shares of stock in Moe's Tavern, Inc.

1) What will happen to the price of the stocks if Ned, Krusty and Seymour do sell?

**Drop further (increased supply of available stock)**

2) If they do sell, what problem does this create for Chief Wiggum?

**May face a call order from Springfield Savings and Loan**

3) If Springfield Savings and Loan issues a call order on Wiggum, what problem does this create for Homer?

**Wiggum faces bankruptcy, and Homer's loan reverts to the bank, which means he is subject to the call order**

4) What problem could be created for the Springfield Savings and Loan if they don't issue a call order on Wiggum when the value drops to 50% of purchase value?

**Could lose the entire value of their security which puts their depositors deposits at risk**