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When is a recession not a recession? Why are interest rates so low? And who is Fannie Mae? MSNBC.com wants to answer your questions.

By John W. Schoen
MSNBC
Updated: 4:26 p.m. ET March 12, 2004

Thursday's report that the U.S. economy grew at 4.1 percent in the last three months of 2003 has Sam in Chicago wondering: What, exactly, makes GDP grow? Meanwhile, Andrew in Florida has asked the Answer Desk for a stock market forecast. (OK -- just this once -- we'll go out on a limb.)

As always, if you'd like to **write to us** , please include your first name and hometown.

What makes GDP grow?

An economic anomaly that has bugged me over the years is that concerning GDP. The U.S. is proud that we have been growing faster than Europe (for the most part) and upset that we no longer can grow as fast as some Asian countries. I wonder how much of the GDP (ours and theirs) is related to population growth or lack thereof?

Sam A. -- Chicago, Ill.

If the **U.S. economy is growing at 4.1 percent**, and China's is growing at an estimated 7 percent, you might think their economy is almost twice as "strong" as ours. But the comparison is somewhat less important when you look at the total numbers.

U.S. gross domestic product (the value of all the stuff we make and the services we provide) came to about $10.5 trillion last year. So if we grow by 4 percent, we're churning out $420 billion more stuff and services this year than we did last year. If China, which produced just shy of $6 trillion in 2002, grows 7 percent this year, you get roughly the same increase in output: $420 billion.

But it takes China (pop: 1.28 billion) roughly 4 times as many people to produce that extra $420 billion than the U.S. (pop: 290 million) needs to do so. That's another way of saying American workers are more productive. (The bad news is that since we can make the roughly same amount of stuff with fewer workers, the number of U.S. manufacturing jobs is shrinking.)

Worker productivity in the U.S. has also been growing more quickly than in Europe or Japan in the past decade or so. (You can check out **the data on the EU's Web site**.) That's been a big factor in the relatively strong performance of the U.S. economy during that period compared to those countries. And the employment rate — the portion of the population actually going to work every day — is lower in Europe than in the U.S. Same thing for China. As for population growth, it turns out that the United States it growing more quickly (an estimated 0.92 percent in 2003) than China (0.6 percent).

So it's more important to look at how productive people are in a given country — and how many are working — than at how many there are, or how fast the population is growing. But before you pat yourself on the back for being so productive, remember that U.S. gains in productivity are due in large part to the capital available to U.S. businesses to invest in technology. If China continues to draw investment at the current rate, expect the productivity gap between our two countries to narrow.

China's growth is also creating more competition for two precious commodities that are needed to fuel any economy: Cash and oil. To maintain its productivity growth, the U.S. will have to continue to consume huge amounts of capital (in part because our government can't seem to manage its finances like the rest of us) along with oceans of oil to keep our economy humming. As China continues to industrialize, it's appetite for cash and oil will continue to grow. And if the price of capital (interest rates) and oil go up too fast, everybody's economic well-being could suffer.

In the meantime, the number you care most about is *per capita* income (roughly the average person's buying power.) At the moment, that number stands at about $37,600 in the U.S. – roughly 8 times that of China's $4,700. In Japan, the number is about $28,700; in Germany, France and the U.K. it's about $26,000. (We got all of these numbers form the **CIA's World Factbook**.)

By the way, you might be surprised to learn that the U.S. does not have the highest per capita GDP. That honor goes to tiny Luxembourg (pop: 454,157). They happen to have lots of banks and not a lot of people, so there seems to be plenty of money to go around.

All-purpose market forecast
Will the Dow Jones Industrial average ever go up to 11,750 again; will the Nasdaq ever close up over 5,000 again, and will the S&P 500 ever close up over 1,500?
Andrew F. -- Tampa Bay, FL

Yes. Just don't ask us when.

EARLIER ANSWERS

March 19, 2004

With oil and gasoline prices hitting record highs this week, a number of readers, including Michael in Illinois, want to know what's driving them higher. And Hank in Oklahoma City doesn't think he should have to have an MBA to follow what's he reads in the news. (Neither do we.)

Pain at the pump
Given that gas pump price has changed by as much as 20 cents in a single afternoon, what factors determine the gas-pump price?
Michael G. -- Granite City, Ill.

That's a pretty big jump. You have to wonder if the station was missing a few of those plastic numbers they use to post prices and just bumped to the next highest number they had.

Gasoline prices have been rising coast to coast — up a quarter a gallon, on average, since the beginning of the year. So, unless you ride your bike to work, you've got to be wondering what's behind the surge.

Unfortunately, there's a pretty long list of reasons. For starters, oil prices are up sharply — this week, they hit $38 a barrel, the highest since 1990 at the start of the Gulf War. Why? Two reasons: Supplies are tight, and OPEC has said it's going to cut production further in April. Also, demand is strong because the world economy is back on track after a recent slump. Add to that a jump in demand from China — now the second largest oil importer behind the U.S. (When you hear politicians arguing about American manufacturing jobs moving to China, remember: All those new Chinese factories consume lots of energy.)

But it gets worse. Oil only makes up about half the cost of gasoline. Usually at this time of year, refiners are switching from making heating oil to gasoline, so they can stock up for the summer driving season. But, as they say in Boston, it was "wicked" cold this winter. So more heating oil means less gasoline.

Finally, gasoline is a very local product: Even though you can fill up in New York, Chicago and Los Angeles and your car runs fine, the gasoline sold in those cities are not the same. There are some 20 different blends using additives that are required to make gasoline burn cleanly and meet air-quality standards. Sometimes, those additives are in short supply. So there could be plenty of gasoline in Iowa, but tight supplies of the right blend for California will send prices soaring there.

No matter how many reasons we can come up with, many consumers believe the explanation is much simpler: Price gouging. While many states have laws on the books to prevent it, it's not always easy to define. (Not so with price fixing, where dealers get together to keep prices high. That's an easy call for prosecutors.)

But unless you're on a long lonely stretch of road and running on empty, it pays to shop around. Even with gas prices high, some dealers are able to undercut others.

And remember, the only alternative to letting prices rise when demand is high and supplies are tight would be to impose price limits. The result would be a different kind of pain at the pump — your local gas station would likely run out of gas altogether. (Think about the run on flashlight batteries before a hurricane.) All things considered, you're probably better off paying a little more if that means you can always get gas. You just may have to cut back on those off-road joy rides in your SUV.

No more MBAs

Is it your column's policy to answer all economics questions? The reason I ask is I have all manner of economic questions and don't believe I should be forced into an MBA program to understand what I read in the news. What do you think?

Hank P. -- Oklahoma City, Okla.

We couldn't agree more. That's why we write this column. We answer as many questions as we can — related to business, financial markets and the economy. And the further off the beaten path of financial reporting the better.

The only questions we don't tackle are those related to specific investment advice — like which stocks to buy or sell. And for those of you who periodically write to ask whether interest rates are headed higher or lower: Sorry, we can't help. Our official Alan Greenspan crystal ball breaks every time we ask it that question.

March 12, 2004

With the Social Security system in danger of being swamped by aging Baby Boomers, Al in New Jersey thinks he has a solution: scale back benefits for "retirees" who keep working after age 65. (Turns out Congress has already thought of that one.) Down the road in South Jersey, Brian is looking for some tips on helping his upwardly mobile daughter finance the purchase of a mobile home.

Solving Insolvency

My question deals with the Social Security issue. I seem to remember that several years ago a major change was made by Congress regarding the benefit amount that a recipient could receive if they continued to work past the age of 65. Prior to that change there was an income ceiling in place that specified if a recipient's income was above a certain point, the recipient would receive prorated benefits, not their full amount. The greater the recipient's income, the lower the benefit amount. Now under the new rules, I understand a worker can receive their full benefit with no limitations on income.

With all the controversy surrounding Social Security insolvency, this seems like an incredibly foolish decision. If this law was reversed, it could help bolster the reserves of the fund, especially with all the Baby Boomers approaching retirement age.

Al F. – Woodbridge, N.J.

When Social Security was first introduced, it was supposed to work like an annuity: you pay money (premiums) during the years you're working. Then you retire and begin collecting monthly payments, based on those contributions, until you die. Unlike welfare, which is paid only on the basis of need (using a "means test"), Social Security was designed as an insurance policy. Insurance pays claims to everyone -- no matter how wealthy they are.

But there has always been an "earnings test" -- which means, simply put, you have to be retired to collect. If you're still working -- even after age 65 -- you're not, strictly speaking, "retired." So, for many years, you had to give back $1 of Social Security benefits for every $2 you earned. But in 2000, Congress repealed that earnings test (except for those younger than 65) to provide full Social Security benefits to everyone regardless of need.

There is, however, a catch. Beginning in 1984, Social Security benefits became taxable. Which means Congress gives full benefits to all -- but then takes back some of the money (in taxes) from wealthier recipients.

Or, as Michigan economist John Attarian puts it: "In effect, Congress had kicked means testing out the front door by repeatedly liberalizing the retirement earnings test -- only to sneak it back in through the kitchen window with benefit taxation. Somehow, it's hard to believe that they didn't know what they were doing."

For more on the history of Congressional tinkering with Social Security, check out Attarian's article "No Social Security Means Test, Eh? Guess What?".

Upward Mobility

My daughter is looking to purchase a mobile home from a co-worker for $25,000. No realtor will be involved. What's the best route my daughter should take in acquiring the funds? Should she seek out a mortgage company or a bank? Do mortgage companies have a minimum amount one can borrow? At least with the mortgage she'd be able to claim the interest on her taxes.

Brian M. -- Marlton, N.J.

When financing a mobile home, a lot depends on just how mobile it really is. Most mobile homes sold today are a far cry from the structures that populated trailer parks decades ago. "Manufactured home" (the industry's preferred term) refers to anything from a modest "single-wide" parked on a leased lot to a multi-section mansion that's pre-fabricated, shipped in sections, assembled on site and bolted to a permanent foundation for all time.

But the distinction is more than cosmetic. If the home is truly "mobile," it will be considered personal property -- like a car or a boat -- and not real estate. That means different local taxes may apply. It also means a lender will offer to finance this type of home with a personal loan, not a mortgage. That usually means you'll pay a higher rate, and the interest is not tax deductible.

So the first thing you need to determine is whether the home you're considering buying is legally classified as real estate or personal property. States and towns use various criteria to determine this: usually, a "mobile home" is parked on a lot leased by a third party and sits on a frame that allows the structure to be moved relatively easily -- even if it's sitting on a foundation and the wheels are no longer attached. The current owner should be able to tell you whether the home is classified as personal property or real estate. If not, check with the town tax assessor.

While you may be able to close this transaction without a real estate agent, you should certainly hire a lawyer who is familiar with these distinctions. (If you don't, it's a good bet the bank will hire a lawyer for you -- and send you the bill.) If the home is currently classified as "mobile" -- and you can figure out how to change that to a permanent home -- you may be able to reduce the cost of financing and deduct the interest payments.

Also, keep in mind that in some areas, mobile homes don't appreciate as quickly as houses -- and in some cases will lose value. Check for other sales of comparable homes in the same area. (These are on file with your town or county clerk depending on the state you live in.)

March 5, 2004

As the government reports on how many new jobs were created last month, Bob in Pennsylvania wants to know if we shouldn't be paying more attention to just how much those new jobs are paying. And while the rest of us are focused on the current unemployment rate, Mrs. Ungricht's seventh grade class in Lehi, Utah wants to know why unemployment spiked in 1937. (It's okay, kids, we promise it won't be on the next test.)

Pay gains?

I frequently read the government jobs report looking how many jobs were gained or lost during a period of time. This, supposedly, is a good sign that our economy is growing or shrinking depending on the net jobs lost or gained.

Does this or some other report reflect the types and average salaries of jobs lost vs. jobs gained? Is losing a $75,000 job and being hired for a $30,000 job simply indicated as one job lost and one job gained in the jobs reports, effectively offsetting each other?

If the average salary of a lost job is more than that of a replacement job, wouldn't that be a negative sign for our economy?

It seems that this would be a more accurate reflection of the state of our economic health.

Bob M. -- York, Pa.

There are several government surveys that measure the health of our paychecks, and for those of us who are still employed, those numbers are at least as interesting as the monthly jobs data.

While it may seem like people are losing high-paying jobs and finding lower-paid work, the reports show that overall, wages have been rising slowly. According to the Bureau of Labor Statistics, average weekly earnings rose by 2.9 percent in 2003.

What those numbers don't show, however, is how much employers shelled out for benefits like health coverage and pension. These "total compensation costs" rose 3.8 percent in 2003.

The numbers also don't show how much work you're actually doing for that weekly wage. One of the reasons the economy can keep growing without creating more jobs is that worker productivity keeps going up. That's just another way of saying we're all working harder, or smarter, or both. According to the BLS, productivity was up 4.5 percent for 2003.

So even if your boss is paying you 3.8 percent more in wages and benefits, you're producing 4.5 percent more work. Which means that, on average, we're all working harder for our money.

History lesson

My seventh grade students and I have noticed that in 1937-1938, the U.S. jobless rate spiked from 14.3% to 19.0%.

We'd like to know what history has said about the reason for that significant shift.

Mrs. Margo Ungricht, Lehi Junior High School -- Lehi, Utah

If you go back a few more years, you'll find that the unemployment rate spiked even higher – to nearly 25 percent – in late 1932. There were a number of causes of the economic recession in the 1930s known as The Great Depression, and explaining those causes has provided jobs for many economists in the seven decades since then.

Those economists have a number of different theories, but most agree that much of the blame rests with a variety of mistakes made by the U.S. government. Among

them was a Federal Reserve Bank policy of keeping money “tight” — which made it harder for businesses to expand and hire more workers. The government also encouraged businesses to keep wages high — which also made it harder for businesses to hire more workers. And the government raised taxes — by 1936 the top rate was 79 percent — which reduced the amount of money people had to spend, further slowing business activity.

As the 1930s progressed, the government began to spend heavily to try to get the economy going again. By 1936, things had begun to improve, so then-President Franklin Roosevelt decided it was time to cut spending and balance the federal budget. That turned out to be another big mistake: The economy slid back into recession, bringing about the spike in unemployment your class is curious about.

Here’s a timeline of other key events during that period.

GOT A QUESTION?

Ever wonder what a P/E ratio is and why it's so important? Are you confused about the official definition of a recession? And just what the heck is a derivative? We're here to give you the answers. MSNBC.com's weekly feature "The Answer Desk" helps you make sense of business, the economy and investing. So send along your questions to answerdesk@msnbc.com and we'll try to get you the answer. (Please include your home town with your question; we'll only include your first name if we use your question.)

Any question is fair game, with one exception: no questions about specific investment recommendations, please -- we'll leave the stock picking to the "pros."

Each week, we'll take some of the most-frequently-asked questions and answer them here. We may not be able to answer every question, but over the weeks and months we will provide a comprehensive resource for you, explaining some more puzzling aspects of business and finance.

You can mail in questions at any time and then check this column every Friday for the answers.

(All information will remain confidential in accordance with MSNBC's privacy policy.)

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When is a recession not a recession? Why are interest rates so low? And who is Fannie Mae? MSNBC.com wants to answer your questions.

By John W. Schoen
MSNBC
Updated: 12:00 p.m. ET June 17, 2004

A number of readers this week have asked about getting in on a lawsuit filed by six female Wal-mart workers who claim they weren't paid as well as men. The suit was granted class action status by a federal judge **earlier this week** -- which means an estimated 1.6 million workers could be due some back pay. If you're one of them, it's probably easier than you think to join the suit. (And you won't even have to pay for the phone call.)

Getting in on the class action
How can someone join the Wal-Mart class action lawsuit?
Guadalupe -- (Address withheld)

You're in luck. If you're a past or current female Wal-mart employee, for now, all you have to do is wait. You only have to do something if you *don't* want to join the class action.

The lawsuit, which was originally filed three years ago on behalf of six women, claims that Wal-mart didn't pay them as well as men and didn't offer them the same opportunities for promotions. This week, the judge hearing the case ruled that lawyers can argue the case on behalf of *all* women who work at Wal-Mart in the United States, or who worked there at any time since December 26, 1998. (The class includes workers at the company's discount stores, supercenters, neighborhood stores, and Sam's Clubs. Workers at distribution centers, headquarters or overseas stores are not included.)

So unless you decide opt out and file your own lawsuit, you're automatically covered – as long as you can prove you're in the class. (We hope you saved all those pay stubs.)

That's the major benefit that class action lawsuits offer people who believe they've been harmed and want to file a claim. Someone else does all the work and, if they succeed, you get to collect.

There are other reasons why it can make sense to combine lawsuits by people who share a common claim against a single company. Individuals who've been hurt are spared the expense of hiring their own lawyers. The company may be able to settle all claims at once and avoid a long and expensive trial. And the court system is spared the burden of hearing the same arguments over and over in separate cases.

But there are definite drawbacks. For starters, much of the money ends up in the hands of lawyers, reducing the amount paid to those who were actually harmed. It doesn't cost the lawyers suing Wal-mart much more money to try the case for one woman than for 100. But by increasing the number of plaintiffs to as many as 1.6 million current and former workers, those lawyers can dramatically increase the amount of damages they ask for -- to make up for all the money that they claim Wal-mart owes all of those female employees. If the company decides to settle the case, it will pay more. And in this case could be slapped with punitive damages – a kind of giant fine designed to punish a company for behaving badly. Either way,

expanding the case to a class action automatically expands the size of the lawyers' paychecks.

It can also be difficult to define a class of people that were all harmed in exactly the same way. A number of attempts, for example, have been made to sue tobacco companies on behalf of all smokers. But the harm caused by smoking varies greatly according to how much you smoked and other factors that vary from one smoker to the next. Wal-mart will almost certainly try to make that argument –- that conditions for more than a million employees working in thousands of stores varied too widely for them to be considered a class -– when it appeals the ruling that allowed the class action to go forward.

Even if that appeal fails, it will be at least a year before the case goes to trial. And, of course, there's no guarantee the class action will succeed. This week's ruling just allows the case to go forward; it has nothing at all to do with whether Wal-mart will win or lose the case.

For more on the class action, check out the **Web site set up by the lawyers** who brought the case. If they win, you'll have plenty of time to contact them and let them know you're due some back pay. Or if you want to sign up now, you can call 877-966-2696.

EARLIER ANSWERS

June 17, 2004

With Fed Chairman Greenspan this week all but posting a schedule of interest rate increases on the Fed's Web site, John in Arizona is facing a common quandary for those looking to retire soon. Since bond prices usually fall as interest rates rise, how can his rejigger his investments to generate more income — without losing money in bonds? Meanwhile, Pauline thought she had a great deal on a bond paying 9 percent — until the government "called" it back. She wants to know what gives — or in this case, why they took it.

Bond shopping

Now we know the interest rates will rise but we do not know how high or for how long. Do to my age and retirement planning it seems necessary to rebalance my portfolio to include about 50 percent in bonds. We plan to use the bond income to supplement our social security payments. When the rates rise the value of bonds and bond funds fall. Is it wise to start buying bond funds now by dollar cost averaging into them for a full 50 percent position?

John W. -- Tucson, Ariz.

This is one of the toughest investment questions facing Baby Boomers approaching retirement — so you're in good company. Since you'll need your investments to generate income, and you'll also want to lower your overall risk, you'll need to shift more of your assets into bonds. But with Fed Chairman Alan Greenspan signaling to the world that shorter-term interest rates are headed higher, this doesn't look like a great time to by bonds. (That's because bond prices fall as interest rates rise. For details on why, check out **our answer to Carlos in Caracas** below).

But all is not lost — or doesn't have to be. Different types of bonds react differently to those interest rate moves. Shorter-term Treasury paper (technically called bills) may hardly feel the impact, especially if you hold them to maturity. That can be as short as 90 days. So one way to blunt the impact of the coming rise in rates is to "stay short."

Short-term paper typically offers a lower yield, though. So if you need to maximize the return on your "fixed-income" (aka bond) holdings, there are alternatives out there. But, as with all investments, higher return comes with higher risk

If you're looking for higher returns, some investors are taking a look at so-called bank loan funds which, as the name implies, invest in companies that need to borrow from a bank because they have lousy bond ratings. These loans are typically adjusted every few months, so as rates rise, so does the interest paid by these borrowers. There's a reason, of course, why their credit ratings are lousy: they may not repay the loan — that's where the added risk comes in. But fund managers are paid to separate the dead-beat loans from those that are most likely to be re-paid.

Another option is a fund that invests in pools of adjustable rate home mortgages. In theory, as those rates are adjusted higher, so is the return on your fund.

Keep in mind that bond funds can be riskier than owning bonds outright. If the fund manager picks the wrong bonds, you could lose more money than if you'd bought a bond and held it to maturity. Don't forget to look carefully at the fund fees and expenses; if they're too high they could eat up the added return you're looking for. (For more on picking a fund, check out the **fund page at our partners at MSN Money**.)

There's also some evidence that the impact of the coming rate rise may not be as severe as it was in, say, 1994 — when a series of rapid fire rate hikes sent bond prices plunging. And keep in mind that the Fed's decision on shorter-rates (the only ones it can control) don't always have the same impact on long term rates, which are set by traders buying and selling bonds all day long. At the moment, some bond watchers say the market has resigned itself to the coming rate hikes — "pricing in" expectations of higher rates. In other words, much of the damage to bond prices may have already been done.

As for dollar cost averaging (buying a fixed amount of an investment every week or month), it's a great long term savings-investing strategy because it forces you to buy more shares when prices are low and fewer when prices are high. If your time horizon is short, it won't offer the same advantages. But it's always better to ease into a new position gradually then to make a big shift all of a sudden.

If your main objective to not lose money, you might consider moving some of your fixed income funds into a money market fund. Most investors have shunned these because they pay such small returns. But if short-term interest rates rise, so will the return on money market funds.

Nothing is forever

In January of 1999, my broker suggested that I invest in U.S. Treasury Bonds. At his suggestion I did. The price $121.39 per share. The description read as follows:

20,000 U.S. Treasury Bonds
CPN 9.125% Due 5/15/09
DTD 5/15/79 FC 11/15/79
Call 5/15/04 @100.000

As it stood, I received dividends in May of each year. Very suddenly my broker phoned me and told me that the bond was being called because of the current interest rates on Government Bonds and with this one the rate was too high. And, as a result he bought U.S. Bonds to replace them at 6.0%. I was under the belief that after purchasing the original Bonds with the yield of 9.0% that I could keep them forever. Can you shed some light on this for me?
Pauline T.

Newly issued Treasury bonds are not callable, but some older bonds — issued before 1985 — are callable within five years of maturity. In your case, these are 30-year bonds, issued May 15, 1979, which you purchased in the secondary market. The call provision was spelled out on your order ticket as "Call 5/15/04 @100.000." (As for why these bonds were called, check out the next answer to Ann in Florida.)

In any case, as noted in the "due" date of the ticket, these would have matured on May 15, 2009. All bonds pay interest only for the life of the loan.

Unfortunately, as with everything else in life, nothing is "forever."

June 11, 2004

They're called "bearer bonds" because they're supposed to be payable to whoever is holding them, but Ann in Florida says her husband is having trouble cashing his in. Meanwhile, R.R. in Virginia has a more pressing concern: Someone screwed up his electronic tax payment and he wants to know who's responsible to making nice with the IRS.

As always, if you'd like to **write to us** , please include your **first name and hometown**

Calling all bonds
My husband has some old fashioned bearer bonds that have to be clipped in order to receive their value. Every time he tries to cash them in at the bank, he finds they have been called or there is some other problem which prohibits him receiving the value of the bonds. He would like to just sell them, if possible, to be rid of the frustration. Do you know where he might be able to dispose of them?
Ann M. -- Central Florida

The first place to start is the finance department or treasurer of the company or municipality that issued the bonds.

If the bonds are callable, they may have, in effect, expired early. Issuers of bonds often put a clause in the offering saying that they can "call" the bonds before maturity, which means that pay off the remaining principal and they no longer owe you interest. It's a bit like you telling the bank you're refinancing your mortgage. And usually the reason is the same: If a municipality is paying high interest rates on a bond, they can call that bond (redeem it early) and pay off investors with proceeds

from a new issue with a lower interest, thus saving money for taxpayers of that municipality.

But if the coupons were supposed to have been paid before the bond was called, they may still have some value — unless the original issue spelled out how long you have to redeem them. (Another question for the finance department of the issuers of bonds you hold.)

Bonds all have the same basic terms — you give the issuer money, they pay you back over the life of the bond with interest. But each issue is essentially a unique contract between issuer and investor. And the devil is in the fine print.

If you find that the bonds, in fact, have no investment value, consider hanging on to them anyway. They may have value as collectibles, depending on how old they are (along with a variety of factors like rarity or graphic design of the certificate.) There are a number of Web sites out there that buy and sell old stock and bond certificates. **Here's one of them**.

Unhappy return

My accountant didn't get my check on time to pay my income taxes for 2003, so we electronically transferred money from my account to the IRS (there is a record of this) which he said they had done before. He got some kind of confirmation, or notice that it had gone through. Unfortunately, in tracking my account, I noticed that there was too much money in it, and after checking, discovered that the transfer never went through and that the money was not taken from my account. My accountant is checking on this and it is taking a lot longer than I thought it would. I haven't sent in more money yet because I have been waiting for results of his investigation. Will the fact that there is a record that the transfer was attempted, but the discovery that it didn't go through was more than a month later — do you think I can avoid penalty — and maybe even interest? My taxes were only somewhere around $800. Should my accountant have told me to send the check right away after the discovery? (I live in Virginia and he is in Illinois — my taxes from last year are tied up with my father's estate.) Is my accountant liable for any of this? I think he did file for an extension.

R. R. -- Alexandria, Va.

Unfortunately, you alone are responsible for filing a correct return and making sure that the taxes due are paid by April 15th. Filing an extension gives you extra time to file a return, but you still have to send in what you think you owe. You don't get an extension to pay unless you specifically negotiate that with the IRS.

However, if you can produce the confirmation that it was paid, you may be able to argue that you "paid" in good faith and only later discovered the error. At this point, if you're sure you haven't paid, the best thing would be to pay what you owe. If, for some reason, it turns out you paid twice (Unlikely: if the money is still in your account, where did the payment come from?) the IRS will either refund your overpayment or let you apply it to next year's taxes. (Take the refund: There's no reason to give Uncle Sam an interest-free loan.)

Since you're only a few months late, the penalty on $800 won't be too severe. But it will only increase the longer you wait to pay.

As for your accountant's liability, it's your job to check your return and make sure the IRS is paid. Some preparers offer electronic payment as a convenience, but unless you paid him the money and he failed to send it to the IRS, he's pretty much in the clear. The faulty confirmation notice, though, is a sign of sloppy work: Either he didn't understand what he was looking at or the confirmation was in error and he should have looked into it. In any case, you may want to find another accountant.

Of all the parties involved, it sounds like the financial institution that was instructed to wire the money is most responsible. You should ask them to write a letter saying they screwed up (if, in fact, they did). They'll resist doing this. Unfortunately, if you read the gobbledygook fine print you signed when you opened the account, you'll probably find lawyer language saying they're not "liable" for damages that result from these screw-ups.

June 4, 2004

As the latest monthly employment report gets its usual treatment under the microscope, Pat in Ohio is trying to figure out just who gets counted as "employed" and who doesn't. Robert in North Carolina, meanwhile, has his own concerns about those weekly jobless numbers: with hundreds of thousands of jobs lost each week, won't we all soon be out of work?

Don't count on jobs data

I know in my company, when an employee takes early retirement, with incentives such as 26 weeks separation pay, they draw unemployment checks for 6 months. Aren't they counted as new unemployed workers, when in fact they took early retirement?

Pat D. -- Columbus, Ohio

It depends who's doing the counting. Since employment levels are such an important measure of a nation's economic health, our government looks at the job market from a number of different angles.

The report that gets the most attention -– released the first Friday of every month -– is actually two reports. The monthly "payroll" survey looks at a sampling of hundreds of thousands of employers to see how many people are on their books. A separate "household" survey contacts people at home and asks them about their employment status: Are you employed, unemployed or not looking for work? (True, people who are sitting at home waiting to answer the phone are more likely to be out of work, but the folks down at the Bureau of Labor Statistics have been doing this awhile, so they've got that angle covered.) For more on the technical differences and how the two surveys are conducted, check out **the BLS Web site.**

A *third* survey, released every Thursday, adds up how many new people signed up for state-supervised unemployment insurance in the latest week -– on the theory that this will show how many people were just fired, laid off or quit.

These three surveys can produce very different results, which is why they sometimes give off mixed signals. Let's look at the case of your early retiree.

First, she'll show up in the weekly "jobless claims" number as soon as she signs up to collect unemployment insurance. But after six months, or whenever her benefits

are exhausted, she'll no longer be considered "unemployed" by this survey –- even if she's still out of work.

When the BLS calls her employer, the company may report that her job was cut -- unless she was immediately replaced. For example, a company might lay off a worker in one money-losing division while simultaneously hiring a worker in an unrelated division that's prospering. In that case, the number of workers on the payroll would stay the same. So as far as that survey is concerned, no jobs were lost.

The BLS might then catch up with our early retiree at home through the household survey. But even then, it's up to her to decide whether she's truly "retired" or just "unemployed." In order to be classified as unemployed, you have to be officially "in the work force" and "actively looking for work."

And if you need to work two jobs to make ends meet, you'll show up as two jobs in the payroll survey but only one job in the household survey.

Some unemployed people get discouraged and quit looking; in the eyes of the government, they are no longer "unemployed." If they start looking again, they're officially back in the "work force" and will be counted as unemployed again if they still can't find a job. That can have the effect of nudging the unemployment rate higher.

For all the attention paid to these monthly numbers, the science of keeping track of who's working and who's not is far from exact. But these surveys do a better job than anything else that's out there.

Over time, these reports give a pretty good indication of where jobs are being created and where they're being lost. For the thousands of economists, investors, elected representatives, policymakers and employers, the value of these data more than make up for the faulty impressions occasionally created by just looking at individual reports.

But that doesn't stop Wall Street -- and the media -- from pouncing on these reports and enthusiastically dissecting the data every month.

Full unemployment?

Whenever the first-time unemployment numbers go down even slightly, and is below 400,000, that is considered good news and stocks go up. But over 300,000 people getting laid off every week? That sounds awful. Even 100,000 every week sounds bad. How can so many people get so optimistic about such numbers? If 300,000 people lose their jobs every week, which has happened for as long as I have been watching these numbers, won't the entire U.S. eventually be unemployed?

Robert B. -- Durham, N.C.

It would be distressing if this report were the complete employment picture. At a rate of 300,000 jobs lost each week, with a total U.S. workforce of about 146.7 million people (as of April), we'd all be out of work in about 9.5 years.

Fortunately, the so-called weekly "jobless claims" report gives you only the bad half of the picture. It's simply a tally of all those people who signed up for unemployment

insurance in a given week. It doesn't include information on how many new jobs were created or how many of those unemployed workers who signed up for benefits weeks ago went back to work.

For that, you have to look at the monthly jobs data. But even then (see above), the picture is far from clear.

GOT A QUESTION?

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Any question is fair game, with one exception: no questions about specific investment recommendations, please -- we'll leave the stock picking to the "pros."

Each week, we'll take some of the most-frequently-asked questions and answer them here. We may not be able to answer every question, but over the weeks and months we will provide a comprehensive resource for you, explaining some more puzzling aspects of business and finance.

You can mail in questions at any time and then check this column every Friday for the answers.

(All information will remain confidential in accordance with MSN's privacy policy.)

MSNBC.com

When is a recession not a recession? Why are interest rates so low? And who is Fannie Mae? MSNBC.com wants to answer your questions.

By John W. Schoen
MSNBC
Updated: 4:38 p.m. ET May 24, 2005

Now that travelers are criss-crossing the globe during peak summer vacation season, many of them are spending a lot of time trying to keep track of how much they're spending in the local currency of their destination. Which has Betty wondering: just why *does* the world have so many different currencies?

Why so many currencies?
Can you explain to me why there are different currencies around the world and why they have different values from country to country?
Betty W.

The simple answer is that currencies are created by governments, so each of the 145 or so countries out there have the ability to create their own.

The value of a currency is determined every hour of every day by the faith people have in its buying power. If a nation's economy is weak or the government backing that currency pursues economic policies that hurt the buying power of that paper, people will quickly adjust and demand more currency or refuse to accept it altogether — both in and outside the country.

The value of one currency relative to another is set largely by the global financial markets. Traders (mostly at big banks and brokerage firms) call each other on the phone all day long, buying and selling dollars, euros, yen, pesos, etc. based on news events or economic reports that impact the value of those currencies. These traders are just trying to make a quick buck, but all this buying and selling amounts to a vote of confidence (or lack of it) in a particular currency.

Some countries realize that their economy is too small to support a stable currency, so they adopt the currency (officially or unofficially) of a larger country. This is especially true of the dollar. That's one reason the U.S. government's ability to control the value of the dollar is limited. Rising oil prices, for example, hurt the value of the dollar because it takes more dollars to buy a barrel of oil.

EARLIER ANSWERS

August 20, 2004

With oil prices hitting new highs every day, Al in New York is wondering why gasoline prices haven't been jumping as well. (Or at least not yet.)

As always, if you'd like to **write to us** , please include your **first name and hometown.** (And due to the rising tide of spam, please write "Answer Desk" in the subject line of your email.)

What's up with gas?
Why have the gas prices at the local gas stations not gone up in a couple of months when oil has gone up 10 to 15 percent a barrel in just the last couple of weeks? Last time oil was getting out of hand you could watch the gas stations change the prices while you where pumping the stuff?
Al O. -- Rockland County, N.Y.

Keep an eye on those pump prices, Al. The recent pullback could be temporary.

One big reason gas prices jumped this spring was that there looked like there might not be enough gasoline to go around in time for the summer driving season. (Gas prices usually rise somewhat every summer because of the increased requirements

for special “reformulated” blends designed to reduce air pollution during warmer weather.)

While those high prices made it a lousy time to fill up your tank, they made it a great time to make gasoline — profits margins for refiners were huge because crude was still relatively cheap. So those refiners began cranking up production to near record levels — and they made a bundle of money by doing so. Now, with all that gasoline sloshing around the system, and the summer driving season wrapping up, prices are falling again.

But so are profit margins for refiners. If unusually cold weather this winter cranks up demand for heating oil, there will be less crude oil available to make gasoline. And if gasoline supplies get tight again, prices could head back up.

A lot depends on what happens to oil prices. So far, the recent oil price rise hasn’t yet moved through the system. But if oil prices keep rising through $50 a barrel — and stay there — the price of all refined products will go up.

What’s troubling about the current oil price run-up is that it’s not based on OPEC withholding oil. In the past, if prices rose too far, OPEC would simply pump more oil and prices would fall. But for the first time since the cartel was founded in 1960, oil producing countries are pumping as fast as they can. (At these prices, who wouldn’t?) Saudi Arabia has said it has a little spare capacity left, but so far its promises to pump more haven’t helped.

The good news is that the run-up in oil prices also seems to be coming from traders bidding up prices on fears that we may see actual shortages of oil. (Kind of like when everyone goes out before a hurricane and buys more flashlight batteries than they really need.) If the markets settle down, and political stability returns to major oil producers like Iraq and Venezuela, we’ll see oil prices fall again.

But oil could well hit $60 a barrel before it hits $30 again.

August 13, 2004

With oil prices soaring and the Fed raising interest rates to keep a lid on inflation, Rod in Texas wants to know just how big an impact those oil prices are having on inflation and the economy.

Return of stagflation?
(Will higher) oil prices (bring) inflation or a drag on the economy? Recent articles seem to indicate it will do both if it goes really high. How can we have inflation when the economy is not growing and therefore creating jobs and pushing wages up?
Rod M. -- Austin, Tex.

In theory, higher oil prices can bring both higher inflation and lower economic growth. That's what happened in the 1970s, when the first "oil shock" gave economists a new piece of jargon: *stagflation,* which had nothing to do with bachelor parties. (A *stag*nating economy with high in*flation = stagflation.)* What made stagflation so difficult to deal with was that the usual levers at the Fed don't work

very well. Higher interest rates cut inflation, but they also throw more cold water on the economy. Lower rates help spur growth, but they add fuel to the inflation fire.

This time around, however, the economy *is* growing, according to the government's latest report on Gross Domestic Product. But that growth is coming primarily from increased productivity — not from newly-hired workers. What's not clear is whether all the increased productivity is the result of technology helping us all become more efficient — or whether we're all just turning into round-the-clock slaves to that technology. In other words, are we working smarter or harder?

As for inflation, there are two kinds: price inflation and wage inflation. Price inflation generally comes first, often from shortages of critical commodities (like oil). Those higher prices then squeeze workers' buying power, so they go to their bosses and demand pay raises (or threaten to strike). To pay for those raises, companies raise the prices of their goods and services, which then sends workers back for more raises, and the vicious cycle begins. That's what happened during the Great Inflation of the 1970s.

With today's employment outlook uncertain and job security reduced, workers are more reluctant to demand those raises. So far, we've only seen the beginning of the impact of higher oil prices. If companies begin to pass those higher costs along (oil is used to make or ship just about everything we consume), eventually workers will start squawking.

Still, there are several big differences between today and the 1970s. For one thing, U.S. taxpayers just got a big tax cut last year, which boosted buying power. Second, when adjusted for inflation, oil prices really aren't as high as they were in the 1970s. And perhaps most important, the oil shock of the 1970s created a huge national effort to become more energy efficient. The result is that the amount of oil used to produce each dollar of GDP is about half what it was 30 years ago.

Aug. 06, 2004

Here at the Answer Desk, most of the mail we get touches on the subject of money one way or another. This week, Carmen in Texas is taking the question head-on: she'd like to know what, exactly, is money? Jeffrey in Omaha, meanwhile, has money to burn — literally — and he's wondering if he can get arrested for doing so.

Tender question

In plain and simple English can you explain exactly what is money? I know it is green and made from paper or coins. However, I need to understand what IS money. How is it created? And if the gold standard was eliminated, then is our paper money backed only by the faith in our government and their power to manipulate us and the world? What stops another country from creating a faith-based currency? Nuclear capability? It all sounds like a house of cards. And if that were true, then would it be most likely that we would associate value to tangibles, such as real estate, gold, tulips? Once the gold standard was eliminated, did we also eliminate REAL money?

Carmen A. -- Garland, Tex.

We'd hate to be the cashier at the supermarket who had to break a $20 for you.

But you're right that much of the strength of a country's currency lies in the faith we all have that it will retain its purchasing power. While coins may have intrinsic value based on the metal used to mint them, paper money is essentially a legal document. What you're really asking is: what are the terms associated with U.S. paper currency?

Here's what the Federal Reserve has to say:

"According to the Legal Tender Statute (section 5103 of title 31 of the U.S. Code), United States coins and currency (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banks) are legal tender for all debts, public charges, taxes, and dues. This means that all U.S. money, as identified above, when tendered to a creditor legally satisfies a debt to the extent of the amount (face value) tendered....However, no federal law mandates that a person or an organization must accept currency or coins as payment for goods or services not yet provided."

In other words, if you owe someone money, the law says you can use these paper notes to pay them back — and they can't try to take your house to settle the debt. But if someone is selling, say, food or gasoline, they are not required to take your paper if they don't want to. They may prefer that you pay them in live chickens or lumber — based on amounts negotiated by buyer and seller.

That kind of barter economy, of course, worked for thousands of years and still prevails in developing countries with currencies that no one has faith in. Using paper to stand in for physical goods first became widespread in the Western world about 500 years ago, when European trading companies financed voyages to find and transport precious goods like gold, spices, lumber, etc. In some cases, those "notes" could be redeemed for goods. Some notes changed hands — with the value rising or falling based on news of the voyages success or failure.

This exchange of paper was the origin of the modern global financial markets, where traders swap billions of dollars worth of stocks, bonds, cattle futures, etc. In some cases, people trade paper than represents the value of another piece of paper called "derivatives." And every time you write a check, you're creating new paper — with separate legal terms and conditions. (There are limits on your obligation to make good on that paper. For example, if someone puts a gun to your head and tells you to write a check, that's called armed robbery.)

You're correct that if the world suddenly and completely lost faith in the value of the U.S. dollar, our economy would pretty much grind to a halt. That's one reason U.S. currency was recently redesigned — to thwart counterfeiting. Nothing undercuts confidence more than the fear that the paper you're working for and saving is not the real thing.

Today, we've moved beyond paper. Economic value is now represented by electronic bits stored in the sprawling computer networks that make up the U.S. "financial system." It's taken decades for banks to create the current widespread consumer confidence in credit cards, ATMs and electronic funds transfer. In some cases, you're out of luck if you don't have access to plastic. (Ask any teenage kid trying to buy something on the Internet.)

This electronic system is clearly subject to abuse, as anyone who has been the victim of identity theft can attest. But as long as the folks at Wal-Mart will let us use plastic, we'll keep shopping there. The minute they stop accepting it, many consumers will likely move to the next merchant.

It's possible to envision nightmare scenarios: terrorists figure out how to hack the U.S. financial system or flood the world with bogus dollars. But we'll always need to trade and, in the modern world that means creating something — paper or bits — to represent the value of our labor and accumulated wealth.

Money to burn

I know it is illegal to deface and/or damage money with the intent to defraud or to force the government to replace the damaged bills with new ones. My question is: is it illegal to burn a bill beyond recognition and scatter the ashes? Since I cannot submit it to the Feds for replacement, they are out nothing. Actually, that's one less bill they have to answer for, so it's like donating money to the Government.

True or false?

Jeffrey K. – Omaha, Neb.

Even though you may have money to burn, turning cash into ashes is a no-no, according to the U.S. Bureau of Engraving and Printing, which makes all U.S. paper currency.

Specifically, this is a violation of Title 18, Section 333 of the United States Code, which says that "whoever mutilates, cuts, disfigures, perforates, unites or cements together, or does any other thing to any bank bill, draft, note, or other evidence of debt issued by any national banking association, Federal Reserve Bank, or Federal Reserve System, with intent to render such item(s) unfit to be reissued, shall be fined not more than $100 or imprisoned not more than six months, or both." The law is enforced by the Secret Service.

As a practical matter, of course, money burners are not easy to catch. If you find yourself in the woods trying to start a fire, and the only paper you've got is cash, you'll probably get away with the crime. Just don't light the match if you see a guy in a black suit with sunglasses talking into his sleeve.

One big reason the government takes a dim view of destroying or defacing currency is that it has to replace it; it costs money to make money — about a nickel per note. And the demand for dollars is huge. The **Bureau of Engraving and Printing** produces 37 million notes a day with a face value of approximately $696 million.

As for helping out Uncle Sam, it's not the government's money, it's yours. Legal tender is provided by the Federal Reserve as a method of satisfying debts (see above), but unless you use it to pay taxes, the government doesn't own those notes.

According to the **Federal Reserve Bank of New York**, there is about $675 billion in cash in circulation — the majority of which is outside the United States. But that amount is not fixed; it rises and falls based on the how much cash banks need to

keep their ATMs stocked and keep the U.S. economy humming. (The Fed manages the supply of money by buying and selling Treasury debt from banks.)

As money circulates, the Fed takes old, tired bill out of circulation and replaces them with crisp new ones. Despite those laws against manhandling it, paper money still takes a beating. The average lifespan of a one dollar bill is about a year and a half.

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