

UNIVERSITY OF ROCHESTER

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Finance 411
Investments

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1. (10 points)

Recently, the stock market has been moving in large jumps. The table below shows the 25 largest one day changes in the Dow Jones Industrial Average between 1928-97. You can see that 12 of the 25 largest drops in modern history have occurred in the last 15 months. Likewise, 15 out of the 25 largest increases in modern history have occurred in the last 15 months.

Largest Daily Changes in the DJIA, 1928-97								
Rank	Date	DJ	Change	% Change	Date	DJ	Change	% Change
1	10/19/87	1738.74	-508.00	-22.61%	10/21/87	2027.85	186.84	10.15%
2	10/13/89	2569.26	-190.58	-6.91%	12/19/96	6473.64	126.87	2.00%
3	3/8/96	5470.45	-171.24	-3.04%	1/17/91	2623.51	114.60	4.57%
4	7/15/96	5349.51	-161.05	-2.92%	3/11/96	5581.00	110.55	2.02%
5	3/13/97	6878.89	-160.48	-2.28%	2/12/97	6961.63	103.52	1.51%
6	3/31/97	6583.48	-157.11	-2.33%	10/20/87	1841.01	102.27	5.88%
7	10/26/87	1793.93	-156.83	-8.04%	1/3/97	6544.09	101.60	1.58%
8	1/8/88	1911.31	-140.58	-6.85%	3/24/97	6905.25	100.46	1.48%
9	3/27/97	6740.59	-140.11	-2.04%	3/18/96	5683.60	98.63	1.77%
10	11/15/91	2943.20	-120.31	-3.93%	11/6/96	6177.71	96.53	1.59%
11	7/5/96	5588.14	-114.88	-2.01%	3/5/97	6945.85	93.13	1.36%
12	10/16/87	2246.74	-108.35	-4.60%	2/22/96	5608.46	92.49	1.68%
13	12/18/95	5075.21	-101.52	-1.96%	10/29/87	1938.33	91.51	4.96%
14	4/14/88	2005.64	-101.46	-4.82%	10/16/89	2657.38	88.12	3.43%
15	12/31/96	6448.27	-101.10	-1.54%	8/21/91	3001.79	88.10	3.02%
16	12/12/96	6303.71	-98.81	-1.54%	12/23/91	3022.58	88.10	3.00%
17	1/10/96	5032.94	-97.19	-1.89%	7/18/96	5464.18	87.30	1.62%
18	2/4/94	3871.40	-96.30	-2.43%	5/31/95	4465.14	86.46	1.97%
19	10/14/87	2412.70	-95.46	-3.81%	8/2/96	5679.83	85.08	1.52%
20	1/23/97	6755.75	-94.28	-1.38%	1/29/97	6740.74	84.66	1.27%
21	4/2/97	6517.01	-94.04	-1.42%	1/30/97	6823.86	83.12	1.23%
22	8/6/90	2716.34	-93.31	-3.32%	2/7/97	6855.80	82.74	1.22%
23	2/20/97	6927.38	-92.75	-1.32%	4/5/94	3675.41	82.06	2.28%
24	10/6/87	2548.63	-91.55	-3.47%	12/9/96	6463.94	82.00	1.28%
25	11/22/94	3677.99	-91.52	-2.43%	8/27/90	2611.63	78.71	3.11%

Bold indicates big changes during 1996-97.

A friend, parent, or colleague has been reading the business press and is concerned about the abnormally high volatility of the US stock market. What do you tell him/her? Suppose that someone asked for your recommendation about how to fix this problem? What would you say?