Rising interest rate reason for stock decline

by robert danner

staff writer

Last week's stock market swings had the suspense and thrills of a high speed roller coaster.

Dr. Jack J. Hayden, a UNLV Associate Professor of Finance, said the recent collapse in the stock market was triggered by a return of rising interest rates, a huge budget deficit, and a trade deficit of very large proportions.

"Stock prices trade on expectations of what people think will happen in the relatively near future. At the time, the market was ripe for a crash and had been over-priced for nearly a year. Prices went their own way to the point where they were beyond reality."

Hayden also said the economy was poised to expand more rapidly than people expected it would and the stock market had lost hope that the federal deficit could be reduced.

"However," he said, "the most immediate news that triggered the crash was that neither Pres. Reagan nor Congress had attempted to curb the growing trade deficit."

He noted that the weakened dollar had been propped up for some time against foreign currencies. If the dollar were to be severely weakened, it would be difficult for foreign exporters to sell their goods in the United States because those goods would be priced at foreign currencies which would be stronger relative to the dollar than they were several years ago. Consequently, foreign suppliers would be forced to raise their prices.

"Economically higher prices would be another source of inflation. Lending institutions would raise their interest rates in order to recover their expected loss in purchasing power from inflation."

He noted that it was unusual that all of the foreign stock markets would have fallen at the same time. "Usually, one market will do well when our market is doing poorly," he said.

When asked whether the market is still overpriced, Hayden said that stocks are relatively inexpensive now. "People should be buying stocks instead of selling them. This is possibly one of the best times in which to buy that I see in the next several years."

"There are many good stocks which could be bought today by those who are in a position to fully pay for them. I would not recommend heavily margined purchases of stock. Those who buy on a cash basis will be rewarded by the inexpensiveness of the stocks on today's market."

He also said that Reagan and Congress must trim the federal budget by 100 billion dollars over the next few years for conditions within the stock market to improve. This panacea would *cure the market of its malaise* and stocks would rise very sharply again.

If the federal budget were reduced, the DOW should start moving up gradually to its equilibrium which, he said, should be about 2,200 points.

Hayden said that increases in the prime interest rates and the rise in federal reserve discount rates are two adverse economic events which caused the market to become bearish. When this happened, it was no longer worth holding on to the stock.

He said that if the federal government is successful in reducing the budget deficit, the effect of the collapse on the economy will be short lived. However, if no reductions are made, the growth rate of the economy would be stiffled.

"I would expect that only a marginal group of people would be affected by this paper loss in the stock market. I also think that the market will continue to have a high volume and move in a sideways pattern for awhile. Be as it may, I do not think that there is any chance at all that we are headed toward a depression."

Hayden said that if the economy were headed toward a recession, such an event would be very light because of the elections which will be held next year.

"The government will probably stimulate the economy enough to prevent a recession from occuring at least until after the elections."

However, if the federal government overstimulates the economy and increases the money supply too rapidly, inflation could occur.

"We are caught between the dangers of a recession and inflation. I think the government would choose to have inflation rather than let a recession occur."

He said that a solution to the stock market collapse would be to curb military spending because the production of massive weapons systems often leads to a high degree of waste. There is also no reason for the United States to continue to provide for the defense of countries whose economies are sound. "If," he said, "the Japanese had to spend 100 billion for defense, their economy would look much worse now."

Theatre lectures featured

UNLV's Southwest Gas Distinguished Artists Series wil sponsor a series of lectures on theatre, titled *Critical Contexts for Contemporary Theatre*, Nov. 11-13. Six prominent professors and theatre critics from across the country will present various lectures that focus on theatre and theatre criticism.

The series will begin with three presentations Nov. 11 at 7 p.m. in UNLV's Flora Dungan Humanities Auditorium (FDH-109). Herburt Blau, a University of Wisconsin-Milwaukee Distinguished Professor of English, will talk on *The Audience, Part I. For more information about the program, call the College of Arts and Letters at 739-3401.*