

WALL STREET JOURNAL ARTICLES Q&A PROJECT

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SPORTS Brooklyn Bridegrooms: Wedded to Victory in Baseball?

THE WALL STREET JOURNAL.

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★★ \$0.02

Last week: DJ12-STOCK AVG 87.71 ▼ 0.33 0.37%

10-YR. TREASURY ▲ 1/32, yield 3.44%

OIL \$0.9125/unch

POUND STERLING \$4.87 unch.

WHEAT \$0.78625 ▲ \$0.0375

PORK \$11.525 ▼ \$0.075

CORN \$0.35625 unch

What's News

Business & Finance

President Harrison reiterated his opposition to bimetallism and said the U.S. will adhere solely to the gold standard, again disappointing advocates of silver. **A2**

■ **The Sherman Antitrust Bill**, almost a year after being reported back from a U.S. Senate committee, remains hooped down in Con-

Lunch, With a Side of Battle Plans



Telegraph Steps Up Trading Speed

NEW YORK—The floor of the New York Stock Exchange is one of the most advanced technology centers on earth.

The perimeter of the cavernous "Main Board" room is lined with telephones, where clerks take orders cascading into lower

Global Era of Negative Interest Rates Ends as Japan Goes to Zero

Peter Landers Megumi Fujikawa | March 19, 2024

Mechanics of Negative Interest Rates for Banks and Depositors: Negative interest rates occur when central banks set rates below zero for banks, essentially charging them to hold excess funds. This aims to encourage banks to lend more rather than hold onto money, which helps stimulate economic activity. For depositors, it can mean receiving minimal returns on savings or even paying fees to keep money in banks.

Positive Impact of Negative Rates on the Japanese Economy: In Japan, implementing negative interest rates was intended to boost economic growth. It depreciated the Japanese yen, benefiting exporters by making their goods more competitively priced internationally. This supported businesses and aimed to combat deflationary pressures by encouraging inflation.

Negative Effects of Negative Rates on the Japanese Economy: Despite its intentions, negative interest rates in Japan had drawbacks. Savers and businesses saw reduced returns on their savings, potentially dampening consumer spending. Additionally, banks faced challenges in profitability due to low interest rates, possibly leading to reduced lending.

Impact of Japan's Monetary Policy Change on the Global Economy: Japan's shift away from negative interest rates could impact the global economy in several ways. A stronger yen may make Japanese exports costlier abroad. Furthermore, if Japan offers better returns on investments, it may lead to repatriation of funds from other economies, potentially affecting interest rates globally.

Effect of Japan's Monetary Policy Change on the Yen Carry Trade: The yen carry trade involves borrowing yen at low rates to invest in higher-yielding assets elsewhere. With Japan moving away from negative rates, borrowing yen may become less attractive if rates rise. This could reduce participation in the carry trade and affect demand for assets like U.S. debt, influencing borrowing costs in other economies.

Audit Deficiencies by Accounting Giants Grew in Latest Inspections, U.S. Regulator Says
By Mark Maurer | February 28, 2024

What are PCAOB inspections? PCAOB inspections are assessments conducted by the Public Company Accounting Oversight Board to ensure that auditing firms comply with relevant auditing and accounting standards in their audits of public companies. These inspections are aimed at enhancing audit quality by identifying deficiencies and enforcing standards, thus upholding the reliability of financial reporting.

What are audit deficiencies according to the article? Audit deficiencies occur when an auditing firm fails to gather sufficient and appropriate audit evidence to support its audit opinion, thus not adhering to auditing standards. This failure can impact the audit's ability to identify or rectify material misstatements in financial statements.

In which areas were EY's audit deficiencies most frequently identified? Are these areas surprising? Explain. EY's audit deficiencies were most identified in the testing of controls related to revenue and associated accounts, business combinations, and inventory. These areas are crucial for accurate financial reporting and require detailed scrutiny. The frequency of deficiencies in these areas is concerning but not unexpected, given their complexity and the high degree of estimation uncertainty involved, which are challenging aspects of auditing.

What trends have been observed in audit deficiencies over the past three years? The observed trend indicates an increasing rate of audit deficiencies. Based on PCAOB data, deficiencies have risen from 29% in 2019 to 34% in 2020, and further to 40% in 2021 for audits outside the Big Four firms. This trend signals a worrisome pattern where audit quality, especially in critical areas, may be declining or facing significant hurdles.

How have public accounting firms responded to these trends? Public accounting firms have acknowledged the unacceptably high deficiency rates and are taking measures to improve audit quality. For instance, PwC is investing in its audit methodology, workforce, and technology and has ceased providing certain consulting services to audit clients to avoid conflicts of interest. EY is conducting a thorough review of its audit practices and implementing transformative actions to enhance audit quality. Deloitte has also made substantial investments to elevate its audit quality. These actions demonstrate a proactive approach to addressing the issues identified during PCAOB inspections.

S&P 500 Hits New Record After Hot Inflation Data

By David Uber | March 12, 2024

What are the key drivers underlying market dynamics? *The market is principally influenced by:*

Technological Advancements: Sectors such as AI are prospering, propelled by notable contributions from companies like Nvidia and Oracle.

Interest Rate Expectations: Despite elevated inflation, there is anticipation that the Fed might reduce rates later this year, which is bolstering investor confidence.

Economic Resilience: Varied economic indicators indicate the economy's ability to withstand challenges, fostering market assurance.

Do you think the fundamental forces steering the market are more robust than the associated risks? *While the current market drivers, especially in technology and anticipated monetary policies, offer considerable support, they face substantial challenges from risks like persistent high inflation, potential interest rate hikes, and geopolitical tensions. These risks suggest a cautious approach is advisable.*

What might trigger a market correction? *Potential triggers could include:*

Interest Rate Adjustments: Unexpected rate hikes could disrupt market stability.

Geopolitical Developments: Escalations in geopolitical tensions could adversely affect global markets.

Tech Sector Reassessment: Downturns in the technology sector may lead to broader market corrections.

Are we likely to witness robust market returns throughout the remainder of the year?

The outlook remains uncertain. If the technology sector continues its growth trajectory and economic conditions stabilize, there could be opportunities for significant returns.

However, ongoing risks such as inflation and potential rate adjustments could temper this optimism, highlighting the need for a balanced investment strategy going forward.

Walmart Seals \$2.3 Billion Deal for TV Maker Vizio

By Sarah Nassour | February 20, 2024

What is the strategic reason for this business combination? Walmart's acquisition of Vizio is strategically aimed at enhancing its advertising capabilities and expanding its digital revenue streams. By acquiring a television manufacturer, Walmart can integrate its advertising business more deeply with Vizio's TV operating systems, offering more ad space and utilizing viewership data to attract more advertisers. This move reflects Walmart's broader strategy to diversify its revenue sources beyond just selling goods, tapping into the lucrative digital advertising market.

Define the terms vertical integration and horizontal acquisition. Vertical Integration: This occurs when a company expands its operations into an area that operates within its supply chain. Essentially, it involves a firm moving up or down its supply chain to control more of its production and distribution processes.

Horizontal Acquisition: This type of acquisition happens when a company acquires another company that operates in the same industry and is generally at the same production stage. The goal is to grow, expand into new segments, or improve economies of scale.

Which of these two terms best fits the strategic reason for this acquisition? The acquisition of Vizio by Walmart is best described as a form of vertical integration. Walmart is integrating backward into the manufacturing of televisions, which complements its existing electronics and digital advertising business. This allows Walmart to control more of the supply chain related to digital advertising through televisions.

Define the term goodwill and state how it is calculated in a business combination transaction. Goodwill: Goodwill is an intangible asset that arises when a company acquires another company for a price higher than the fair value of its net identifiable assets at the time of acquisition. According to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 805), goodwill is calculated as the excess of the purchase consideration transferred over the net recognized amount of identifiable assets acquired and liabilities assumed.

Traders Are Being More Aggressively Ahead of Economic Data

By Eric Wallerstein | March 4, 2024

Discuss AI's capability to forecast future outcomes based on historical data. AI utilizes vast datasets to detect patterns and trends that may elude human analysts. While AI can enhance forecasting accuracy, its predictions rely heavily on historical data and patterns. This implies that AI models may not fully accommodate novel scenarios or unprecedented market changes, potentially limiting their reliability in predicting future outcomes.

How does today's market compare to the technological advancements and markets of the mid to late 1990s? The current market is significantly more technologically advanced than the markets of the 1990s. The widespread adoption of AI and machine learning, coupled with high-frequency and digital trading platforms, has increased transaction speed, volume, and complexity. These technological advancements have made markets more efficient but also more susceptible to rapid shifts due to automated trading systems.

Do you think AI might foster a false sense of security regarding future predictive abilities? There is a genuine concern that heavy reliance on AI could create a false sense of security. While AI can process and analyze data rapidly, its outputs are only as reliable as the data and assumptions they are based on. Over-reliance on AI predictions may lead to unexpected outcomes if the underlying assumptions fail to align with evolving market conditions.

How could implementing AI as a research tool benefit and potentially harm the markets? Benefits: Enhanced Efficiency: AI can swiftly process large volumes of data, identifying trends and anomalies that may be missed by human analysts.

Improved Decision Making: AI's deeper insights and forecasts can assist traders and investors in making more informed decisions.

Drawbacks: Market Volatility: AI-driven trading may result in swift market movements as many trades are executed simultaneously based on similar algorithmic decisions.

Systemic Risk: Dependence on similar AI models and strategies across firms might lead to trading behavior homogeneity, potentially exacerbating market movements during periods of stress.

The Deficit Could Shrink This Year. America Still Has a Serious Budget Problem.

By Andrew Duehren | February 7, 2024

What is the role of the Congressional Budget Office (CBO)? *The Congressional Budget Office (CBO) is a federal agency situated within the legislative branch of the United States government. It provides impartial analyses concerning economic and budgetary matters, supplying the information and estimates needed for the Congressional budget process. Established in 1974, the CBO's objective is to furnish Congress with objective, timely, and unbiased information regarding budgetary and economic issues.*

What assessment has the CBO offered to the U.S. Congress regarding the U.S. federal budget? *The CBO has projected that the U.S. federal budget deficit will shrink in fiscal year 2024, decreasing from \$1.68 trillion in 2023 to an estimated \$1.58 trillion. However, the agency cautions that despite this reduction, the overall fiscal condition of the government is deteriorating. Factors such as an aging population, escalating healthcare costs, and increasing interest expenses are anticipated to continue driving up deficits, which are higher compared to historical norms. The CBO forecasts significant deficit increases over the next decade.*

What are the factors contributing to the reduction in the fiscal 2024 federal budget deficit? Define the term budget deficit in your response. *A budget deficit arises when expenditures surpass revenue during a specified period. For the U.S. federal government, the anticipated decrease in the fiscal 2024 deficit is attributed to several factors:*

Bipartisan Budget Deal: This agreement, incorporating measures to raise the debt ceiling, is anticipated to reduce deficits by \$2.6 trillion over ten years.

Strong Economic Conditions: Higher-than-expected economic growth has led to increased tax revenues.

Delayed Tax Revenues: The realization of revenues from previous years later than anticipated also contributes to the reduction.

Why do economists argue that the current U.S. budget deficits deviate from historical norms? *Economists highlight that the current U.S. budget deficits significantly surpass historical averages. According to the CBO, in comparison to the U.S. GDP, the forthcoming deficits are approximately 50 percent larger than their historical average over the past 50 years. This divergence primarily stems from recent unprecedented government spending during the COVID-19 pandemic, ongoing high costs of entitlement programs, and rising interest payments on the national debt. Such persistently high deficits raise concerns regarding the long-term fiscal sustainability of the government.*

Whirlpool, Maker of Big Home Appliances, Focuses on Its Small Ones.

By Jennifer Williams | Feb. 29, 2024

Define your understanding of higher growth and higher-margin businesses. Higher

Growth Businesses: These are sectors experiencing rapid revenue expansion or substantial market share growth, often attributed to innovation or effective market strategies. Higher-

Margin Businesses: These are segments with a superior profit margin in relation to their revenue, typically due to streamlined operations, robust pricing strategies, or strong brand positioning.

What have been the revenue and profit trends at Whirlpool for the last two years?

Whirlpool saw a slight decrease in revenue, down by 1.4% to \$19.5 billion in 2023.

However, profits rebounded significantly to \$481 million from a loss of \$1.5 billion in 2022, indicating successful cost management and a strategic shift towards more profitable product lines.

What factors have led to those trends? Economic Factors: Challenges such as high inflation and a sluggish housing market dampened demand for larger appliances. Strategic

Adjustments: A focused approach on smaller, higher-margin appliances along with cost-saving measures contributed to improved profitability. Market Demand: Continued consumer interest in home cooking sustained sales within the small appliance category.

The article mentions that the company has “spent the better part of last year separating out small appliances in the company’s financials.” When will investors see those disclosures?

Investors can expect to see the detailed breakdown of small appliance financials in Whirlpool's upcoming first-quarter results, scheduled for release in April.

Where will the new disclosures about small appliances be made? How will these new disclosures differ from what Whirlpool has disclosed in the past?

The new disclosures regarding small appliances will be integrated into Whirlpool's regular financial reporting, encompassing both quarterly and annual reports. These disclosures mark a departure from the past by presenting separate financial data specifically for small appliances on a global scale. This approach enhances transparency and facilitates a more thorough analysis of performance, distinct from regional impacts or other product mix dynamics.

Moderna Looks to Pare R&D Spending Even as It Pivots from Covid Vaccines

By Mark Maurer | March 6, 2024

Describe the shifts in Moderna's revenue and profitability post-Covid-19. Since the pandemic, Moderna witnessed a substantial revenue surge throughout 2021 and 2022 due to heightened demand for its Covid-19 vaccines. However, by 2023, as vaccine demand tapered off, revenue plummeted by 64% to \$6.8 billion, accompanied by a notable net loss of \$4.7 billion. This downturn reflects the challenge of transitioning away from pandemic-driven sales spikes.

What factors contributed to these trends? Several factors influenced Moderna's financial trajectory: *Diminished Covid-19 Vaccine Demand:* With more people globally getting vaccinated, the urgency for Covid-19 vaccinations declined, leading to reduced sales. *Increased Research and Development (R&D) Spending:* Despite lower revenues, Moderna continued heavy investment in R&D, totaling \$4.8 billion in 2023, impacting its financials. *Market Saturation:* The Covid-19 vaccine market reached saturation levels as a significant portion of the target population already received vaccinations.

Moderna's 2023 R&D expenses surpassed its net loss for that year. Can reducing these expenses solve the problem? Explain. Cutting R&D expenses isn't a viable solution for Moderna as they are vital for innovation and product development in the biotech sector. R&D is foundational for the company's competitiveness and long-term sustainability. While reducing these costs might offer short-term relief, it would hamper Moderna's ability to innovate and create new revenue streams essential for future growth.

What expansion strategies is Moderna pursuing, and how does it manage costs in this context? Moderna is actively diversifying its product portfolio beyond Covid-19 vaccines into areas like oncology and other diseases. Despite cost-cutting efforts, Moderna strategically allocates funds toward high-potential initiatives. It improves operational efficiency through automation and overhead reduction, allowing resources to be redirected to critical growth endeavors. This strategic balance enables Moderna to explore new revenue avenues while controlling overall expenses.

We Still Don't Believe How Much Things Cost

By Rachel Wolfe Rachel Louise Ensign | March 12, 2024

How has inflation impacted you personally? *As someone managing a household budget, inflation has significantly affected my financial decisions. Grocery shopping and travelling expenses have noticeably increased, stretching my budget tighter. The rising costs have outpaced any wage increases, forcing me to cut back on discretionary spending like dining out and movie theatre outings to make ends meet.*

What could happen to consumer credit card debt burden if inflation continues to rise, and what impact might this have on the broader economy? *Continued inflation may lead consumers to rely more on credit cards to cover everyday expenses due to reduced purchasing power. This heightened usage of credit cards could elevate overall consumer debt levels, especially with increased interest rates on balances. Consequently, this might dampen consumer spending on non-essential items, impacting businesses reliant on discretionary purchases and potentially leading to job cuts, contributing to an economic slowdown.*

What measures can policymakers take to combat inflation besides raising interest rates? *Policymakers can employ strategies to address inflation beyond interest rate adjustments. They can focus on promoting productivity and efficiency in industries to mitigate cost increases. Temporary regulatory easing or facilitating smoother import processes can enhance supply chain dynamics, helping meet demand without significant price spikes. Moreover, transparent communication of policy intentions can foster market stability, preventing reactionary price hikes and instilling confidence among consumers and businesses in the economy's management.*

How to Make Sure Your Second Home Doesn't Become a Tax Trap

By Cheryl Winokur Munk | March 2, 2024

Why is an individual's residency or domicile significant in terms of taxation?

The taxation of an individual is directly influenced by their residency or domicile status, as it determines the jurisdiction's legal right to impose taxes on their income. Residents typically face taxation on their global income by their state of domicile, while non-residents are generally taxed solely on income derived from within that specific state.

How does owning properties in multiple states complicate tax matters? *The ownership of multiple homes can introduce complexity into tax scenarios due to the ambiguity surrounding which state should be recognized as the individual's primary residence or domicile. Each state applies its own set of criteria to determine residency status, impacting the taxation framework applicable to the individual.*

What are the indicators that determine an individual's domicile for tax purposes?

Several factors play a role in establishing an individual's domicile for tax considerations, such as their primary residence location, where they spend most of their time, state of driver's license issuance, voter registration, vehicle registration, and the address where they receive mail. Domicile determination involves evaluating a combination of these physical presence factors alongside the individual's intentions or declarations.

Does an individual's state of domicile solely dictate their taxation status? *No, taxation is not solely dictated by an individual's state of domicile. States may also impose taxes on individuals as statutory residents if they spend a substantial period (often defined as more than half a year) within the state or earn income from sources within that state, irrespective of their domicile status.*