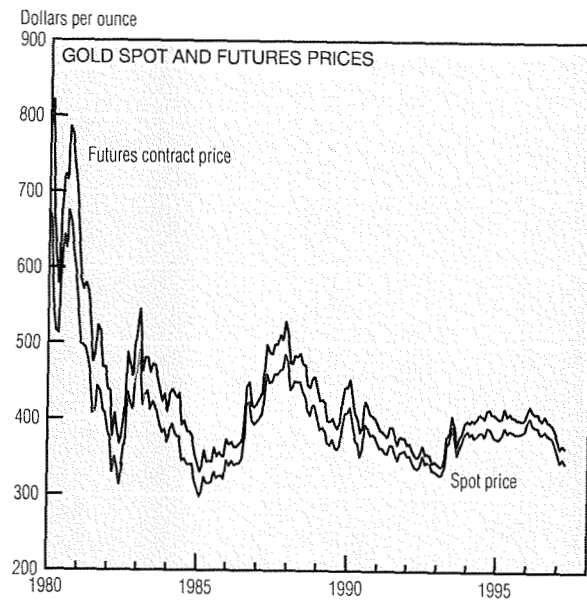
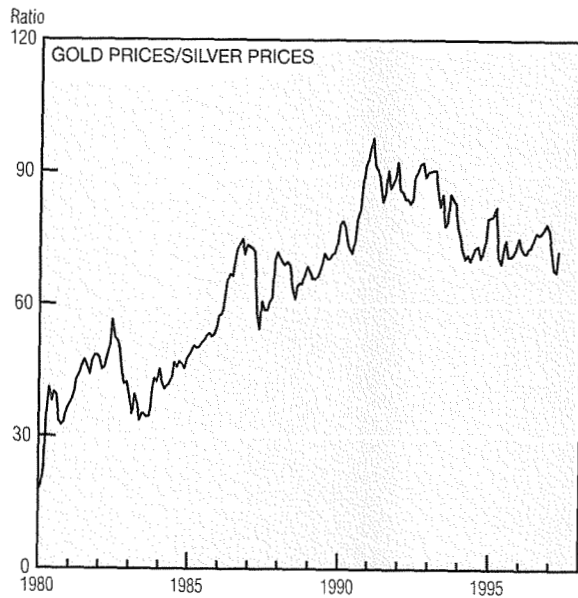
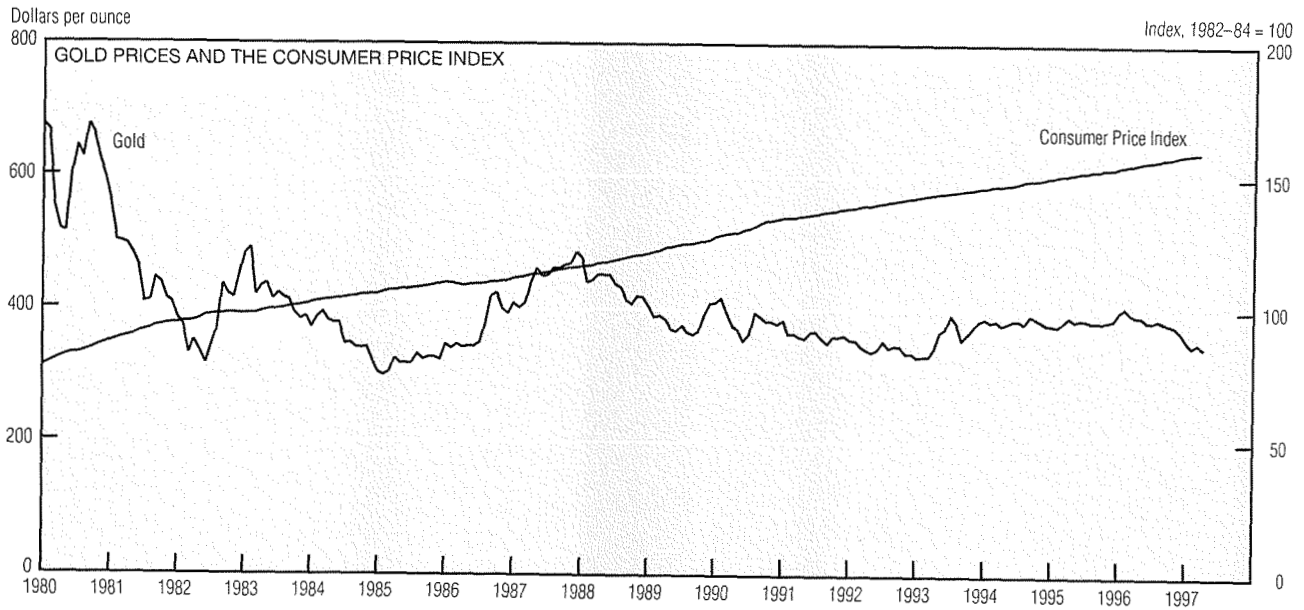


Precious Metal Prices



NOTE: All precious metals prices are in dollars per troy ounce.
SOURCE: DRI/McGraw-Hill.

Although the U.S. is no longer on a gold or silver standard, the prices of these precious commodities still command widespread attention. One reason is that the price of gold is often considered an indicator of inflation. Over the past decade, however, gold prices have held steady or declined in the face of a slowly rising price level. As the pattern of the early 1980s demonstrates, gold prices can show substantial fluctuations unrelated to movements in the Consumer Price Index. In part, gold reacts to infla-

tionary expectations, industrial demand and supply, and fears of political instability overseas.

Silver, another precious metal often used in monetary systems, should respond to many of the same general influences as gold. Surprisingly, though, gold has become relatively more valuable in recent times. Between 1980 and 1991, the ratio of gold to silver prices surged from below 30 to above 90; since then, it has stabilized at around 70.

Precious metals can also be traded on futures exchanges, where

investors agree to purchase (or deliver) metals on a given date sometime in the future. The futures price depends on investors' expectations of future spot prices, their attitude toward risk, and the cost of storing the commodity. Thus, the price of six-month gold futures provides an estimate of the spot price six months from now. The futures price generally follows the spot (current) price quite closely, but the numbers are rarely identical, and the gap (formally known as the *basis*) shows some variation over time.