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**Media Advisory** (4/24/96)

## > Will smart cards make consumers part with hard cash?
## > A report on the auto industry in the Eighth District
## > Measuring investment risk with duration

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The April 1996 edition of ***The Regional Economist***, the Federal Reserve Bank of St. Louis' quarterly review of business and economic conditions in the Eighth Federal Reserve District, features the following articles:

• **"Will That Be Cash, Check, Charge or Smart Card?"** Using "money" stored electronically on a microchip embedded in an ATM-like card is supposed to change the way consumers and merchants conduct business. Economist Adam M. Zaretsky explores both the opportunities and risks posed by so-called smart cards. He finds that proponents will have to overcome several obstacles to make the new technology a viable addition to current payment methods.

(more)

• **"District Automotive Sector Flourishing."** Michigan and Ohio still dominate the automobile industry in the United States, but five states in the Federal Reserve's Eighth District are capturing a growing share of the nation's car and truck production: Illinois, Indiana, Kentucky, Missouri and Tennessee. Economist Kevin L. Kliesen surveys motor vehicle production in the Eighth District and concludes that several factors contradict the industry's analysts who declared in the early 1980s that the automotive industry was in the throes of a long-term decline.

• **"Investment Improvement: Adding Duration to the Toolbox."** Individual investors often use credit ratings and maturity to measure the risks and rewards of fixed-income securities. Economist Michelle Clark Neely looks at an alternative to these more traditional measures: duration. Used for decades to varying degrees by financial institutions and other institutional investors to measure and hedge interest rate risk, duration is calculated as the weighted average time to maturity of a bond, using the relative present values of cash flows from the bond as weights. Using duration, an investor can compare the interest rate risk and, therefore, the potential price swings associated with bonds of different maturities, coupon rates and payment periods. Although duration is far from perfect, Neely concludes that an individual investor would be wise to add it to his investment toolbox.

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