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What do tanking gold prices say about the economy?



MICHAL CIZEK/AFP/Getty Images

Gold bars are seen at the Czech Central Bank in Prague.

by **Adriene Hill** (<http://www.marketplace.org/people/adriene-hill>)

[Marketplace Morning Report for Monday, December 9, 2013 \(/shows/marketplace-morning-report/marketplace-morning-report-monday-december-9-2013\)](http://www.marketplace.org/shows/marketplace-morning-report/marketplace-morning-report-monday-december-9-2013)

Not that long ago, gold was trading near \$1,900 an ounce. Today it's fallen to just above \$1,200.

What's that tell us about our economic confidence? Andreas Hauskrecht, a professor at Indiana University's Kelley School of Business, is adamant about the answer. Not much. "Gold is the worst indicator for how people feel about the economy," he says.

But if we can't say *what* falling gold prices mean, we might be able to answer *why* gold prices are falling.

One theory is that rising interest rates are luring investors to other investments.

Another theory is that we're a little less freaked out about the economy than we have been. "Gold has traditionally been thought of as something that is a disaster protection," says Campbell Harvey, a finance professor at Duke University. "Now that the economy is returning to a more normal situation, that disaster demand is evaporating effectively."

But his [research \(http://ssrn.com/abstract=2078535\)](http://ssrn.com/abstract=2078535) finds gold isn't the great hedge that investors think it is. Prices, he says, are just too volatile.

About the author

Adriene Hill hosts Marketplace Money and reports for the Marketplace sustainability desk, with a focus on consumer issues and the individual relationship to sustainability and the environment.

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I expect better from NPR. The gold story is so much more complicated than a simple-minded statement that investors are getting more confident in the economy or that the gold price doesn't always correlate to fear and calamity. In fact investor demand for physical gold has only intensified (evidenced by the premiums paid for physical outside the U.S.). Nor was there anything about the extremely complicated relationship between price-setting in the futures market (where the enormous leverage creates huge opportunities to manipulate prices) and the movements of physical gold. Oddities and ironies abound in the story of gold this year and the story managed to miss all of them.

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