Developments In Business Simulation & Experiential Exercises, Volume 22,1995

BULLS AND BEARS: A STOCK MARKET SIMULATION

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ABSTRACT

The purpose of this stock market game is to introduce students to the stock market, with particular emphasis on the impact rumors and news have on supply and demand forces at work in the market. The game is designed for an audience of undergraduate business majors, although it has been successfully played with high school seniors, and would be appropriate for any type of adult audience.

Economics, ethics, finance management, marketing, and policy classes could all benefit from the game because it adds realism to some of the issues addressed in these classes. The game takes a minimum of 45 minutes and could last as long as one and one half hours. Game length can be manipulated by the instructor. The size of the audience needs to be
10-50.

DESCRIPTION

Each trader is given shares of stock in five companies: DEFENSIVE, CYCLICAL, GROWTH, MERGER, and HEALTH. (This last company name can vary depending upon what topics are “hot” in the news. When this game was designed, coverage of Clinton’s Healthcare Reform Act dominated newscasts, so the authors chose HEALTH to make the game current). Descriptions of the companies and what affects their prices (for example, a rise in interest rates may cause defensive stocks to increase in price while it could cause a decrease in the price of cyclical stocks) are given to all participants. Players are also given $50,000 in cash. A specialist is assigned to each stock and is given a “station”. All trading for that stock takes place in front of the specialist’s station. Trading is stimulated by the flashing of news and rumors across the “ticker tape” (The authors used an overhead).

Trading Rules

(1) Trading for a particular stock begins when the morning bell rings and ends when the afternoon bell rings.

(2) Participants will be trading for five days (rounds). Each round will last for ten minutes, with a three minute break in between the rounds.

(3) Traders may purchase or sell a particular security in one of two ways:
(a) Traders may buy or sell shares in firms by striking a “deal” with another trader. The buyer in the transaction is responsible for informing the specialist of the price at which the trade took place.
(b) Traders may use the specialist to execute a trade if no market participant is willing to execute the order.

(4) All trades must take place in round lots.

(5) It is possible that one or more of the companies traded will go bankrupt.

Learning Objectives

It is hoped that this exercise will teach student’s three main lessons:
(1) The impact that news and rumors have on the price of securities sold on the stock market.
(2) The definitions of defensive, cyclical, and growth companies and what factors impact their stock price.
(3) How the stock market functions and the role of the specialist.