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THE POLITICAL FUTURES GAME

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ABSTRACT

An experiential exercise is described for simultaneously predicting political races and teaching price theory. Political candidates are treated as futures contracts. These contracts are then traded by the class in a futures market.

INTRODUCTION

Since the late 1950's, the contingency concept of management has included the political environment as an external environmental influence on a firm's performance. Different political leaders come into office with different agendas. These differences lead to a different environment within a state or country. This study develops an affordable alternative to the formal and expensive polling mechanism for predicting political outcomes. By using a simple experiential exercise based on the efficient markets hypothesis, it became possible to predict the outcome of a political race within one percent of the actual outcome. More specifically, the political candidates were treated as a commodity suitable for trading on futures contracts and then trading the contracts to establish their future value, the election outcome.

THE POLITICAL FUTURES GAME

This exercise utilizes favors in the form of state business as the commodity of value. Potential favors from a governor are traded on a futures market. To establish a reference value for the traded commodity, trades will be conducted in the form of shares. Each share represents a potential favor from one particular candidate worth \$1,000 in state business.

The initial session is started with a brief lecture on price theory and orientation regarding how futures markets work. Student are given \$2000.00 trading capital, the Futures Game briefing sheet, and a supply of buying slips and selling slips. The instructor then writes on the board the names of the candidates involved and trading begins.

The key elements which must be emphasized in the briefing are:

1. Each trade consists of two people: A buyer and a seller, who have agreed upon a price and a quantity of shares for the transaction.
2. If a student thinks a candidate is going to win, the student should buy that candidate's contracts. If they think a candidate is going to lose, they should sell the candidate's contracts.
3. Establish the initial value of each contract at \$1.00 per favor. Do this by finding a student willing to buy/sell 100 shares of a candidate at \$1.00 per share.
4. Ensure that the class understands, that the price of the candidate was established by having both a buyer and a seller at the given price.

5. Use different colored trading slips, one color for buy and another for sell.
6. It is the responsibility of the buyer to turn in the trading slips.
7. The current price for a candidate is the price of the most recent transaction. The instructor should update the blackboard with the current price as each trade is completed.
8. To neutralize a prior stake in a candidate, a position is closed out by taking an opposite position in the same contract. (If I originally bought 100 Walters I close out the position by selling 100 Walters)
9. Before trade commences, enter into an example transaction and close the position out. Demonstrate to the students how you made/lost money on the transaction and that you no longer have a position in that candidate.
10. Emphasize: The only way to make money in this game is to buy low and sell high. **IT DOESN'T MATTER WHICH OF THE TWO YOU DO FIRST!!** Just remember you want to buy the winner and sell the loser.
11. Each share a student has a position in will cost them \$1.00 earnest money, to be deducted from their cash position. Negative cash balance leads to the instructor closing out the student's position.
12. Each trading period is 10 minutes long.
13. Plan on a minimum of 5 trading/class periods before the election. (Seven is probably better.)
14. Announce to the class that attempted market manipulation is handled by offering 1000 shares of the ridiculous price to the class and forcing the attempted manipulator into taking the other side of the trade.
15. Enter all trades into the trading spreadsheet.
16. Post the current standings before starting trading. The running total is the pertinent column for determining the class winner because it combines cash and paper profits.
17. The contract is closed after the election with the loser's contracts being worth zero and the winner's contracts being worth 1.5 times the last traded price.

CONCLUSION

Due to the nature of the reward process the last session will be characterized by wild price swings. As a result of these method artifacts, the results from the last day of trading should not be used in prediction. What the author did was to use the next to last session as the base period. Within this base period, take the price of both candidates and add them. Establish the percentage each price was of the total. This percentage is what was used to predict the margin of victory. For example, Walters closed at 1.35 and Price at .95 on the next to last day of trading. This translated as Walters getting 58% of the value inherent in these two candidates' future. In reality, Walters actually won by 57%, placing this experiential exercise within one percentage point in its prediction of the race.