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BANKGAME

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ABSTRACT

Bankgame is a comprehensive interactive multiperiod banking management business game. It provides a simulated banking environment in which a small group will become the banking management team and operate within banking industry composed of several banking firms. All bankgame companies start the game with the same asset mix, financial structure, and potential for success. Each firm has to make decisions each period concerning interests on deposits, interests on customers loan, amount of customer's loan, amount of banks' loans, promotion budget, research and development expense, dividend per share. This decisionmaking cycle will continue over several periods of simulated business operation until the administrator stop the game and evaluate each firms operations.

INTRODUCTION

The main functions of management team are investment decisions, financial decisions, and dividend decision. The group participants have to manage their banks in such a way to achieve their objectives.

BANK DEPOSITS

Three types of deposits are demand deposits, saving deposits and time deposits. At the beginning of the game, the proportion of deposits is 11:14:28. No interest is paid to customers on demand deposits. The manager of each bank has to set the interest rates on time deposits and saving deposits. The amount of deposits each bank will receive depends on interest rates, competitors interest rates promotion budget, R&D expenditures and economic conditions.

BANK'S LOAN

Three types of bank's loans are domestic loans, overseas loans and call loans. The manager can raise funds by borrowing from domestic sources. The interest rates on domestic loan is 6 % annually. The bank has to pay back the principal together with interest expenses in equal installments quarterly. besides domestic loins, bankers can raise funds from overseas loans with a 5 % interest rate, but will bear the risk of exchange rate fluctuation. An overseas loan has to be paid back equally within 4 quarters. A call loan is an emergency loan whenever there is a shortage of cash. The interest rate is 10% annually. There is service charge for all types of bank loans.

CUSTOMERS' LOANS

The main sources of income for the bank are interests received from overdraft, short-term loans, and long -term loans. The interest rate for any types of loans must be set by the management team. Short-term loans plus interest charges have to be paid back equally within 2 quarters. Long-term loans with interest charges have to be paid back in equal installments within 4 quarters. Each bank has to set the ceiling of each type of customer loans. The actual amount of customer loans will depend on interest rate, promotion expenses, R&D, competition and economic conditions. Each bank receives revenue in form of interest charges plus a 1-% service charge on customer loans.

SECURITY INVESTMENT

Banks can Buy or sell their securities whenever they have cash surpluses or shortages. The interest will be received from security investments at 7 % annually.

ASSUMPTIONS

It is almost impossible to simulate the real situation and operations of a bank. Otherwise, the game will become too complicated. So the following assumptions must be made in order to play Bankgame.

- 1. Cash basis accounting procedures are employed.
- 2. The legal reserve requirement is 15 % of total deposits.
- 3. Administrative expenses consist of fixed expenses and variable expenses.
- 4. Deposit withdrawals are approximately 10-30 % of total deposits.

HOW TO MANAGE YOUR BANK

To manage your bank successfully the management team has to make the following decisions during each period.

- 1. The maximum amount of customer loans.
 - * Overdrafts
 - * Short-term loans
 - * Long-term loans
- 2. Interest rates on three types of customer loans.
 - * interest rate on overdraft accounts
 - * interest rate on short-term loans
 - * interest rate on long-term loans
- 3. How much to borrow on bank loans.
 - * domestic loans
 - * overseas loans
- 4. Security investment decisions.
 - * amount of security purchased
 - * amount of security sold
- Interest rates on bank deposits.
 * interest rates on saving accounts
 - * interest rates on time deposits
- 6. Promotion expenditures.
- 7. R&D expenditures.
- 8. Dividends per share.

To be successful each the management team should assign specific duties and responsibilities to each member of his team. Each team should analyze the situation from financial statements and then make strategic plans carefully.