

# Exchange

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A Simulation of the American Stock Market



#### **About the author**

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## Purpose

As the United States enters the twenty first century, it faces a world that is increasingly complex and interdependent politically, socially, and economically. This increasing complexity and interdependence is particularly evident on the economic front, where a multitude of factors must be balanced so that a degree of stability and prosperity can be achieved. These factors include natural resources, energy, technology, capital, labor, and governmental action. A paradigm of this balancing process is found in the stock market where all of these factors, and more, converge to cause the ups and downs of stock prices. The dynamic process of action and interaction among these forces and the varied interests of particular investors is what *Exchange* is all about. While playing *Exchange*, students gain an understanding of stock market mechanics and an appreciation for that array of economic forces which, in addition to affecting stock prices, have so much to do with the economic well-being of all Americans.

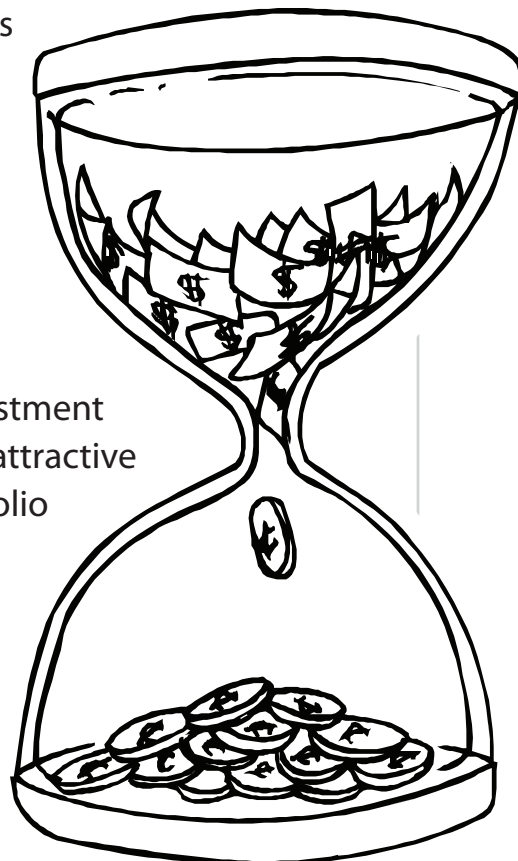


## Overview

This simulation is designed to last for approximately 5 to 6 class periods, but it may be easily extended if time permits. On Day 1, by way of introduction, the students are told that after several years of nationwide recession, encouraging economic recovery signs are appearing. The President is about to make a major economic speech which economists confidentially say will send stock and mutual fund prices soaring. Students then receive role identities as Individual Buyers, Foundation Directors, Mutual Fund Managers, Brokerage Firm Executives, and Exchange Accountants. They study their role descriptions and are asked to begin a portfolio with their first entry focusing on "What are my goals in this role?" To aid them in this answer, a detailed explanation of the Stock Exchange's operation is given in the STUDENT GUIDE.

Approximately 5–6 class periods

On Day 2, stock and mutual fund prices are posted while money and stock certificates are handed out to give each investor a beginning portfolio. Early trading starts while investors begin formulating their investment strategies. Brokerage Firm Executives decide on their investment counseling fees and note the margin requirement for the day. Mutual Fund Managers meet to discuss their own investment strategies and ways to make their Funds attractive to potential customers. The second portfolio entry is started and includes the record of daily stock and mutual fund prices, as well as personal reactions to the day's events.



On Day 3, new stock and mutual fund prices are posted along with the day's margin requirement. Trading is in full-swing. Brokers are competing with each other to sell their services to investors. Mutual Fund Managers are employing persuasive tactics to sell their shares while simultaneously making their own Fund's investments. Foundation Directors are faced with the necessity of making careful, conservative investments in order not to panic the Exchange. RUMOR/CRISIS CARDS are circulated and affect prices. The third portfolio entry concerns why investments were made and what strategies were employed.

On Day 4, the final trading session starts after a noticeable rise in the prices of stocks and mutual funds. As the President's speech nears and more information leaks out, the margin requirement is raised in anticipation of heavy buying. A RUMOR CARD of a possible Middle East war temporarily slows trading while a later CRISIS CARD on decrease in the prime lending rate increases it again.

On Day 5, students begin to calculate their role's performance points after the point system is carefully reviewed by the instructor. After students finish their point calculations, debriefing begins. (**NOTE:** This simulation is not designed to have winners or losers. The calculation of points is just to give students an idea of their investment performance. This is a learning activity where students learn by participating. *This should be stressed in class.*) During the debriefing students reflect on the various factors that influenced their role-playing and investing strategies. By the end of debriefing, they will be more aware of how various investment strategies are formulated and employed by all types of investors. Finally, all portfolios are turned in to the instructor at the end of the session.

## Setup Directions

- 1. Role Identifications:** For a class of 36, the 36 role IDs are divided into the following exchange groups: 18 Individual Buyers, 3 Foundation Directors, 6 Brokerage Firm Executives, 6 Mutual Fund Managers, and 3 Exchange Accountants. (If you have fewer than 36 students, delete some Individual Buyers.) The Individual Buyers, Mutual Fund Managers, and Foundation Directors are all investors concerned with increasing the total worth of their portfolios. The Mutual Fund Managers need to invest wisely to attract buyers to invest in their Funds. The Foundation Directors must invest conservatively so they won't panic the Exchange. The Brokers are concerned with brokerage fees, margin requirements, and smart investment counseling, all of which directly affect the number of clients they attract. The Exchange Accountants concentrate on accurately posting stock and mutual fund prices and the administration of all transactions. Note the role division given on the chart below.

Exchange Group & ID Color Code	% Exchange	Number in Simulation
Individual Buyers (Green)	50.0%	18
Foundation Directors (Red)	8.35%	3
Mutual Fund Managers (Blue)	16.7%	6
Brokerage Firm Directors (Yellow)	16.7%	6
Exchange Accountants (White)	8.35%	3

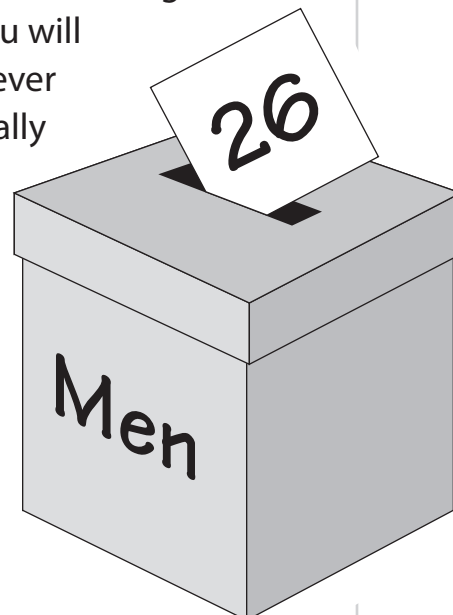
2. **Role Id Tags:** Obtain colored construction paper (green, red, blue, yellow, and white) and cut into approximately 4" x 6" rectangles. At the end of Day 1 you will give each student a tag corresponding to his/her color-coded exchange group to use while making an ID tag for homework.



3. **Assigning Roles:** Decide how you want the Role IDs distributed among your students. You have two alternatives: **Chance** or **Choice**.

**Chance:** If you want to leave the selection of roles up to chance, place ID numbers 1, 2, 4, 5, 9, 11, 12, 13, 14, 17, 19, 22, 23, 26, 28, 30, 34, and 35 on separate slips of paper and drop in a box marked *Men*; also place numbers 3, 6, 7, 8, 10, 15, 16, 18, 20, 21, 24, 25, 27, 29, 31, 32, 33, and 36 on separate slips and drop in a container marked *Women*. These numbers are keyed to identities listed in the STUDENT GUIDE.

**Choice:** After students read the Role IDs, they write their first three choices of the role they would like to play on a piece of paper. While the students are reading the rest of their STUDENT GUIDE, you will match IDs to student choices whenever possible. Stronger students will usually choose the most demanding roles and this makes the simulation more stimulating.

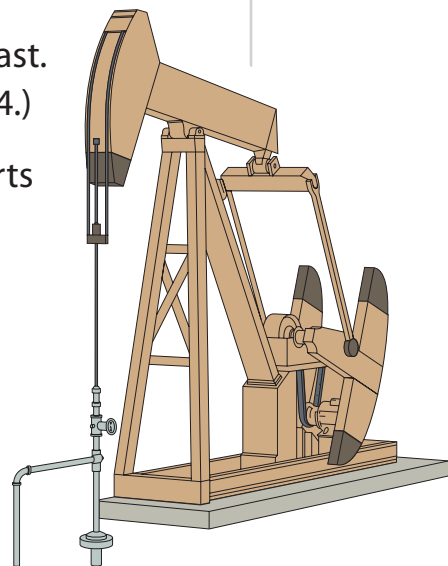




- 4. Duplication:** Make photocopies of the STOCK CERTIFICATE and MONEY SHEET pages of this Teacher Guide. Then run off at least 100 sheets of STOCKS, cut the sheets in half, and file for future use. Run off 200 sheets of MONEY, cut the denominations apart with a paper cutter, rubber band together, and file them for future use.
- 5. RUMOR/CRISIS CARDS:** Below is a list of suggested “cards.” Depending on your class situation, choose the 5 or 6 you feel are the most appropriate. Type each on a separate 3" × 5" card. (You may change them or write new ones if you feel it is necessary.) Write *Rumor* or *Crisis* in bold letters on the back side of each typed card, depending on which it is. Circulate at least 2 or 3 of them during Days 3 and 4, including those specifically designated for Day 4. (An alternate method is to designate one of the Exchange Accountants as “Information Specialist” and have her/him write the RUMORS and/or CRISES on the chalkboard or on an overhead projector as “bulletins.”)

### **Rumors**

- OPEC Oil Ministers are said to be considering a one month oil embargo on oil imports into the U.S. (See first CRISIS below.)
- Rumors are spreading of war in the Middle East. Local skirmishes are increasing. (Use on Day 4.)
- Unidentified congressional spokesman reports that enough votes now exist to pass the proposed tax cut bill.
- Word of an impending telephone company workers strike has leaked out as contract negotiations are reaching an impasse. (See fourth CRISIS below.)



- The Harold Poll announces increased public confidence in national institutions for the first time in three years.

### **Crises**

- OPEC Oil Ministers announce a temporary, one month oil embargo on oil exports to the U.S. Allied Oil, down 4; Mack Frisbee Productions, down 2; Standard Utilities, down 3; Global Airlines, down 1; Tri-State, down 2; American Growth, down 1.
- New York First National Bank. one of the nation's 10 largest, has failed. Allied Oil, Eastern Chemical Company, General Mobiles, International Data Computers, down 3; Kenya Mining Company, Mack Frisbee Productions, National Telephone Company, Standard Utilities, Tri-State, down 2; AJO Electronics, Global Airlines, American Growth, down 1.
- The Prime Lending Rate falls one point. Allied Oil, Eastern Chemical, General Mobiles, International Data Computer, up 4; Kenya Mining, Mack Frisbee Productions, National Telephone Company, Standard Utilities, up 3; AJO Electronics, Global Airlines, Tri-State, American Growth, up 2. (Use on Day 4.)
- Telephone workers' contracts have been signed at the last minute. National Telephone Company, up 4; AJO Electronics, up 2; International Data Computers, Tri-State, up 3; American Growth, up 1.



## ● Daily Directions ●

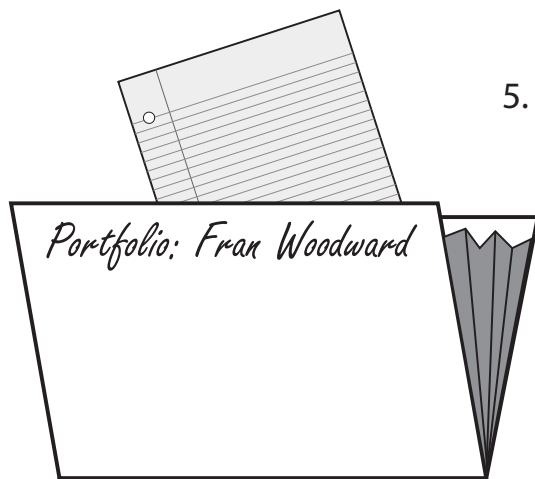
## Day 1



Whole class

1. Hand out STUDENT GUIDES and have students read them. Explain why you are having the class play EXCHANGE and what you hope they will gain from it.
2. Using **Choice** or **Chance**, distribute student role IDs. If you choose **Choice**, have students thoroughly read entire STUDENT GUIDE while you are matching roles with choices.
3. Ask students to reveal their roles to the rest of the class by telling their name, a little about their role, and how they envision playing it.
4. Hand out colored construction paper pieces to students and explain the color code for each Exchange group. Tell students they are to make their own role ID tags during overnight homework. Remind them of the 4 things they should have on their tag: Name, Exchange Role, Occupation, and Amount of Capital.

Name:	<u>Douglas Owen</u>
Role:	<u>Individual Buyer</u>
Occupation:	<u>Farmer</u>
Amount of Capital:	<u>\$10,000</u>



5. Go over the "Keeping a Portfolio" section in the STUDENT GUIDE. Make sure that students understand the portfolio's purpose. Stress that portfolio entries should not simply tell what happens: they should reveal the imaginary ID's inner feelings.

(You can use portfolios for partial evaluation after the simulation.)

6. Give students their first portfolio assignment to complete as homework. Their first entry should deal with "fleshing out" their roles. Explain that they are to write a page or two from the viewpoint of their role: how they see their role, what their investment possibilities are, how interaction with other role IDs might benefit them, and whatever other facts they might want to include.
7. If time exists, show a DVD on the Stock Exchange, or give a short lecture on its main features.

