

**ECONOMICS 40223**  
**International Monetary Economics**  
Foreign Currency Trading Game  
Updated for Fall 2019

Although I'm sure you already knew just how much fun foreign currency trading could be, to drive that point home I'm going to let you play a game in this class. And there will be prizes, too!!! YOU MUST MAKE AT LEAST ONE TRADE!

<b>Accomplishment</b>	<b>Points Added to Final Grade</b>
beat JTH	0.5
finish #1	1.5
finish #2	1.0
finish #3	0.5

Note that one could both “beat JTH” and finish in 1<sup>st</sup> place, yielding a bonus of 2 pts.<sup>1</sup>

To play, follow these steps:

- Go to <http://fxgame.oanda.com/>.
- Select “Register for FXTrade Pactice.” Fill out all the info. Whenever you sign back in, make sure you are selecting “fxTrade Practice” from the “Account” drop-down window.
- E-mail me your account name and password by Sunday, September 8 (midnight, Fort Worth). This way I can be sure that you have only used one account to make your money (rather than opening ten different ones where you try all kinds of crazy stuff!).
- Trade, trade, trade!!!

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<sup>1</sup> If two individuals tie for 1<sup>st</sup> place, then the next person is actually in third (and those two each earn ½ of the combined total of the bonus points for 1<sup>st</sup> and 2<sup>nd</sup> place). This same system will be used to determine points in any tie. In addition, no more than three individuals can win points for placing. In the event that ties create more than three individuals the winners will be determined randomly. This applies only to placing and not to “beat JTH.”

## WINNING

All positions must be closed (i.e., translated back into dollars) by midnight (Fort Worth time), Saturday, December 7 (only dollars will be counted—I'll cash in what you have not). I will then calculate for every participant the ratio of their current holdings of dollars to their starting amount (plus any additions they have made during the period—you can add and subtract funds at any time, but I will take this into account). Note that if you have changed any account information without telling me, your activity will not be counted. PLEASE be sure you let me know all info as of September 8!!! This can create problems later.

## IMPORTANT NOTES

- Double check all currency values to make sure you understand how the price is being expressed. For example, while the FXGame lists the US dollar-Euro price as EUR/USD, it **doesn't necessarily mean Euro's per dollar**. In fact, the price shown is dollar's per Euro. Not knowing this could really screw up your trading scheme!!! So, always double check by jumping over to <http://www.xe.com> or a similar web page.
- When executing a buy/sell market order, the Lower Bound/Upper Bound is used only if you think that the market is so volatile at the moment that there may have been an adverse change in the price *since you opened the window*. That way, you can't find yourself in a situation where you thought you were buying or selling at one price, but in the meantime there has been a movement such that you would no longer have been willing to carry out your transaction. I can't imagine this happening too often, but it's there just in case.<sup>2</sup>
- You can set stop loss and take profit points if you don't have time to sit glued to your PC (though that's really fun!). And, these can be changed at any time.
- You are trading on the margin, which means that you can take a \$100,000 position with less than \$100,000. This is so because the institution is only making you responsible for any subsequent losses. But, while it gives you more flexibility, it also creates a danger! A student in 2004 found out (the hard way) that if you lose too much the computer makes a margin call and closes out your position. You lose all your money! On the plus side, he got that out of his system in college and then became a successful professional trader when he graduated. Whew.

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<sup>2</sup>That said, I just learned about a friend's ex-spouse trading Enron stock *without* setting these bounds and getting wiped out! Actually, this is probably really a lesson about not trading a company that's in the middle of a crisis (that eventually destroyed it).

- You are paid interest on cash held in dollars. In addition, you are being charged and are earning interest in non-dollar currencies. It can get more complicated, but overall I wouldn't sweat this too much, though, as currency price movements will tend to be much bigger than the interest rate differentials.
- You can create your own trading rules that will be superimposed on the FX charts. Play around with the various tools, etc., and see what you can work out.
- Oanda has an excellent intro to FX trading here:

<https://www.oanda.com/forex-trading/learn/intro-to-currency-trading/>

## **NEWS SOURCES**

Google. And more Google. Don't forget you can set up notifications, too.