Bull Fight – The Stock Market Game[♦]

by
Prof. Ram Kumar Kakani
Assisted by Kaushik Sen, XLRI BM 2004 batch

Introduction

Reading books and applying them are two different things especially in the world of finance. So it is important to test whether our knowledge is only theory or it has some practical applicability. The traditional examination route (especially based on text book dependent question papers) cannot test practical applicability as it only tests the exactness of our theoretical knowledge. Hence we are going to try the best alternative i.e. simulation. We shall, in this simulation, try to simulate the stock market with a limited number of stocks, mutual funds and gilt securities. The reason for selecting the stock market for simulation is that it can test almost all fundamentals of financial management

Structure and rules of the game

1. The game will be played by groups of three individuals and all rewards would be for the groups
2. The groups would be given an opening balance of Rs. 25 lacs in cash to start trading with.
3. The groups would be given choices of thirteen companies, three mutual funds (i.e., two government securities based and one equity based).
4. The game will be held over a period of "N" sessions with each session lasting for "X" minutes during which some news items would be flashed. Accordingly the groups will plan their trading
5. Each trade will have a brokerage fee of 0.5% of the value of the trade attached
6. Groups can do multiple trades in a session, of course there would be brokerage charged with each trade.
7. The trading would be done at the prices announced at the start of the session, i.e. there would be no change in the stock prices during the session.
8. At the end of the session the closing prices would be announced and profits calculated at that price.
9. No short selling is allowed
10. Leveraged buying is allowed with a credit limit of Rs. 25 lacs. Hence cash balance can not go down below "-2500000". If this happens the software will show error.
11. No derivatives are there in the market and hence all hedges have to be natural hedges
12. Groups will have to pay an interest of 0.5% per session on the amount of cash lying idle with the group. And, convenience sake, they will pay the same amount of interest on the leverage they take.
13. Taxes would be 30% flat for both interest earnings and profit on trading. No provisions have been made for dividends.

♦ The author wishes to acknowledge the help of Prof. P Venugopal, Prof. R K Premarajan, and Sowmya Shashidhara Guru.