

ECONOMICS 40223
International Monetary Economics
Foreign Currency Trading Game

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!

Accomplishment	Points Added to Final Grade
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 1st place, yielding a bonus of 2 pts.¹

To play, follow these steps:

- Go to <http://fxgame.oanda.com/>.
- Select “Register for FXTrade Practice.” 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 Saturday, September 3 (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!!!

¹ If two individuals tie for 1st place, then the next person is actually in third (and those two each earn ½ of the combined total of the bonus points for 1st and 2nd 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), Friday, December 9 (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 3!!! This can create problems later.

IMPORTANT NOTES (for the FXGame help page go here: <http://fxtrade.oanda.com/help/>)

- 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.
- 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.
- 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—meaning that you lose a ton of money. Pay attention and don't let losing positions run too long.
- You are paid interest on cash held in dollars. It can get more complicated, however. From the FXGame manual:

Calculating interest on open trades is more involved. An open trade, say 1000 units of EUR/CHF, involves two currencies: the Euro and the Swiss Franc. If the open trade is long (i.e. you bought Euro and sold Swiss Francs), then you effectively are long (i.e. you hold) 1000 Euro and OANDA pays you the borrowing interest rate on the 1000 EURO for the duration you hold the trade. At the same time, you are short on the equivalent amount of Swiss Francs, so OANDA charges you the lending interest rate on that amount for the duration of the trade. These interest

rates are converted to USD before they are credited/charged to your account.

If the open trade is short (i.e. you sold Euro and bought Swiss Francs), then you are short EUR and OANDA charges you lending interest rates for that amount of EUR, and you are long CHF and OANDA pays you borrowing interest rates for the corresponding amount of CHF.

Overall I wouldn't sweat this too much, though, as currency price movements will tend to be much bigger than the interest rate differentials. To get the interest rates they are using, go here:

http://fxtrade.oanda.com/fxtrade/interest_calculation.shtml#.

- You can create your own trading rules that will be superimposed on the FX charts. Play around with “overlay” and “indicator” on the main page. You can do a lot more personalizing of your screen, too. Look under “Tools” and “User Preferences,” for example. I have found other stuff by accident—just play around.
- You can buy/sell on the margin. See these pages for details:

http://fxtrade.oanda.com/currency_trading/margin_trading.shtml

http://fxtrade.oanda.com/fxtrade/margin_rules.shtml

NEWS SOURCES

There are many places to go for info on FX movements. You can start with the resources listed on Onada's page:

<http://fxtrade.oanda.com/resources/news.shtml#>

Also check out these pages:

<http://www.dailyfx.com/>

<http://forexnews.com/>

<http://www.reuters.com/financeCurrencies.jhtml>

<http://www.currencytradermag.com/> (free currency trading magazine!)

I have my Google news page set for currency news, too. You can experiment with that to see what you can do.