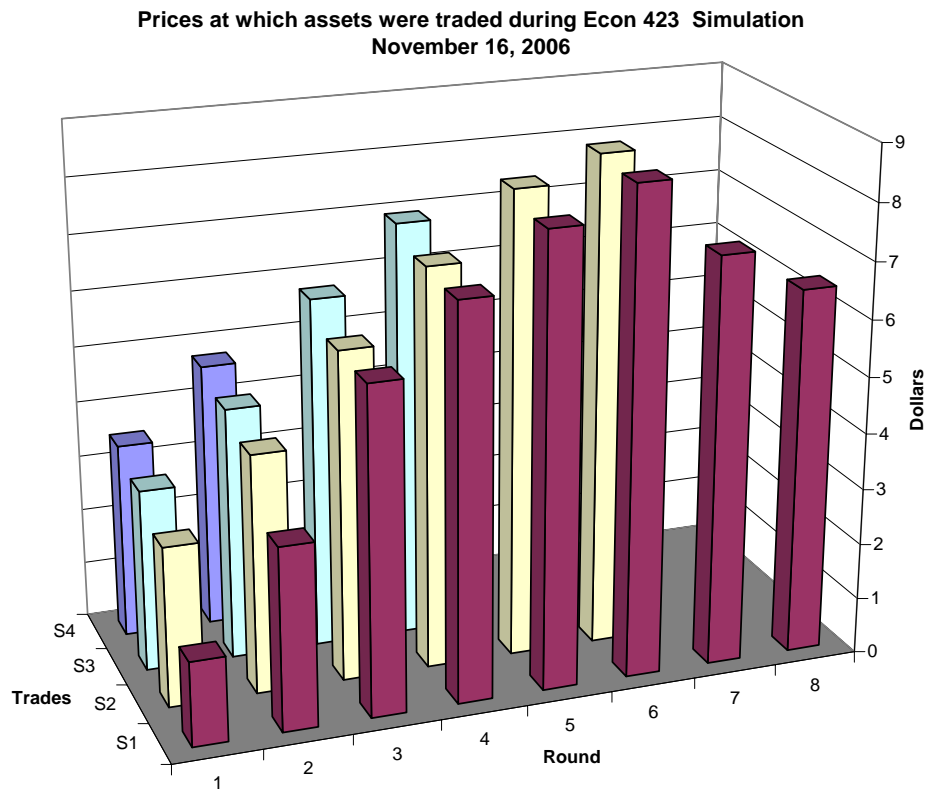


Report on Stock Trading Simulation
November 16, 2006

- The fundamental value of each asset is \$6.00 at the beginning of each round of the game no matter how many assets have survived. To see this, realize that the fundamental value after trading has stopped in the 8th round is $1.00 + 5/6 (\$6.00) = \6.00 . Now consider the fundamental value after trading has stopped in the 7th round. At that point, if your asset survives you get its fundamental value in the 8th round which is \$6.00. Since there is a 5/6 chance that your asset will survive, its fundamental value at the end of trading in the 7th round is $\$1.00 + 5/6 (\$6.00) = \$6.00$. The same argument may be applied sequentially to the 6th, 5th, and all earlier rounds. Thus, the fundamental value of the asset is \$6.00 throughout the game.



- As the graph shows, early round trades were below the fundamental value. By round 4, traders had created a bubble and all trades in rounds 4-8 were for amounts greater than the fundamental value. The highest price observed was \$8.70.
- The final cash positions of each team were A: 36.50, B: 33.25, C: 20.50, D: 40.45, E: 37.85, F:38.30, G:24.25, and H:30.65 . Team D wins even though they had some bad luck in the final round. Congratulations to Alicia Ogden, John Ellis and John Gray.
- The prize to the winners is \$10.00 each which I will present on Tuesday.

Great work!!