Name_____

An International Finance Classroom Simulation
Student Handout

This classroom simulation introduces some basic principles of international finance. You'll be assigned to serve either as a leader, candy retailer, stockbroker, foreign exchange broker, or household. When the simulation begins, households will use their currency to buy stock certificates or candy according to the following rules:

- Just as real-world households must either consume or save all of their disposable income, households in this simulation must spend all of their currency on either candy (a form of consumption) or stocks (a form of saving). They may buy from either foreign or domestic sellers.
- Households must put any candy and stock they've purchased on their leader's desk.
- No one may eat the candy until the end of the class period.
- Stock certificates will be redeemable at an undisclosed time in the future for two pieces of candy each.
- If households buy candy or stock from a foreign country, they must first convert their domestic currency into that country's currency by going to the foreign exchange broker. Any currency note can be exchanged evenly for any other note.
- Stockbrokers and candy retailers must sell stock or candy to any buyer who offers them domestic currency for it. The price of each candy or stock certificate is exactly one domestic currency note. Bargaining is not allowed.
- Candy and stock certificates can't be resold after they've been purchased from a stockbroker or retailer.
- Stockbrokers, candy retailers, and the foreign exchange broker aren't eligible to buy candy or stock.

1. Table 1 shows the amount of currency, stock, and candy in each country before trade. After trading, record the new amounts of currency, stock, and candy for each country in Table 2. Each row should sum to 30, and sums of the three middle columns should be 60, 20, and 40 respectively.

TABLE 1
Before Trade

	Currency (Number of bills)	**Stock (Number of certificates)**	**Candy**
USA	15	5	10
Japan	15	5	10
Mexico	15	5	10
Britain	15	5	10

TABLE 2
After Trade

	Currency (Number of bills)	Stock (Number of certificates)	Candy	Row totals
USA				
Japan				
Mexico				
Britain				
Column totals				

2. Calculate your country's exports (domestic candy before trade less domestic candy after trade), and then subtract imports (foreign candy purchased) from them to get net exports. Report your results to the instructor, and then record the results for all the countries in Table 3.

TABLE 3
Net Exports

	1. Domestic candy before trade	2. Domestic candy after trade	3. Exports = (1) – (2)	4. Imports = Foreign candy purchased	5. Net exports = (3) – (4)
USA	10				
Japan	10				
Mexico	10				
Britain	10				

3. Foreign investment occurs when the people in a country purchase foreign physical or financial assets (like factories, stocks, and bonds). The difference in value between the foreign assets they purchase and the domestic assets they sell to foreigners is a country's net foreign investment. Use Table 4 to calculate net foreign investment for your country, report the results to your instructor, and then record the results for all countries.

TABLE 4
Net Foreign Investment

	1. Domestic stock before trade	2. Domestic stock after trade	3. Foreign purchases of domestic stock = (1) – (2)	4. Domestic purchases of foreign stock	5. Net foreign investment = (4) – (3)
USA	5				
Japan	5				
Mexico	5				
Britain	5				

4. Table 5 examines the sources of supply and demand for each country's currency. Holders of a currency supply it so that they can buy foreign currency, which, in turn, allows them to buy foreign imports or assets. Foreigners, on the other hand, demand a country's currency whenever they wish to buy its exports or assets. Use the data in Tables 3 and 4 to fill out columns (1), (2), (4), and (5) for each country, and then calculate values for columns (3) and (6).

TABLE 5
The Quantity of Currency Supplied and Demanded

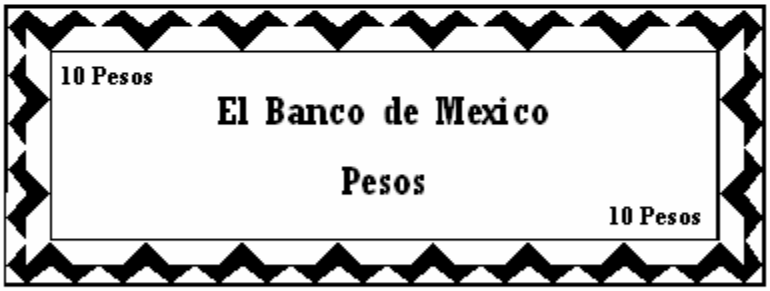
	1. Imports	**2. Domestic purchases of foreign stock**	**3. Quantity of currency supplied = (1) + (2)**	**4. Exports**	**5. Foreign purchases of domestic stock**	**6. Quantity of Currency Demanded = (4) + (5)**
USA						
Japan						
Mexico						
Britain						

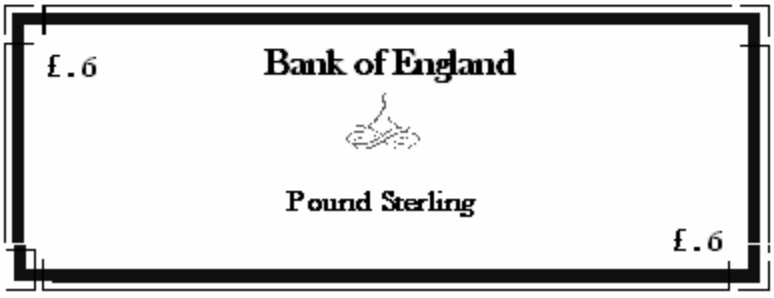
5. Table 6 shows each country's balance of payments. For each country, use the data from Tables 3 and 4 to fill out columns (1), (2), (4), and (5), and then calculate the values in columns (3) and (6).

TABLE 6
Balance of Payments

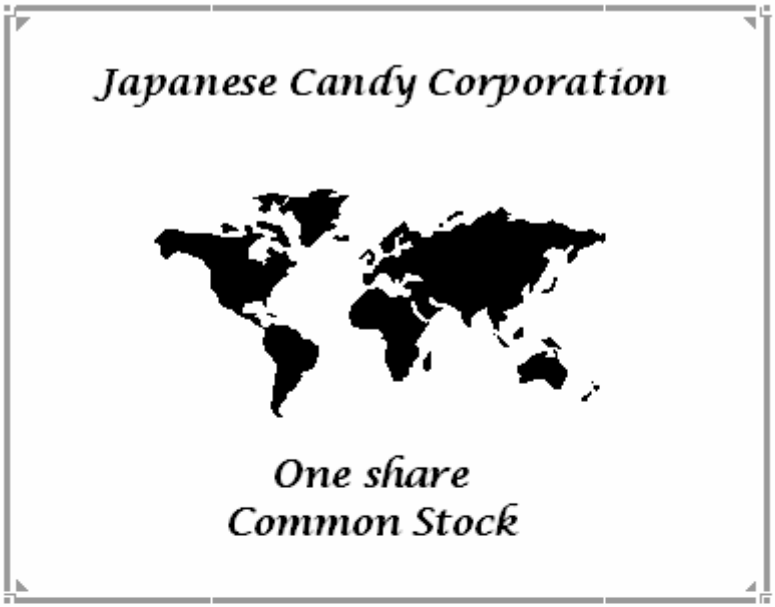
	1. Spending flowing into country (excluding purchases of assets) = exports	**2. Spending flowing out of country (excluding purchases of assets) = imports**	**3. Balance on current account = (1) – (2)**	**4. Spending flowing into country for purchases of assets = foreign purchases of domestic stock**	**5. Spending flowing out of country for purchases of foreign assets = domestic purchases of foreign stock**	**6. Balance on capital account = (4) – (5)**
USA						
Japan						
Mexico						
Britain						

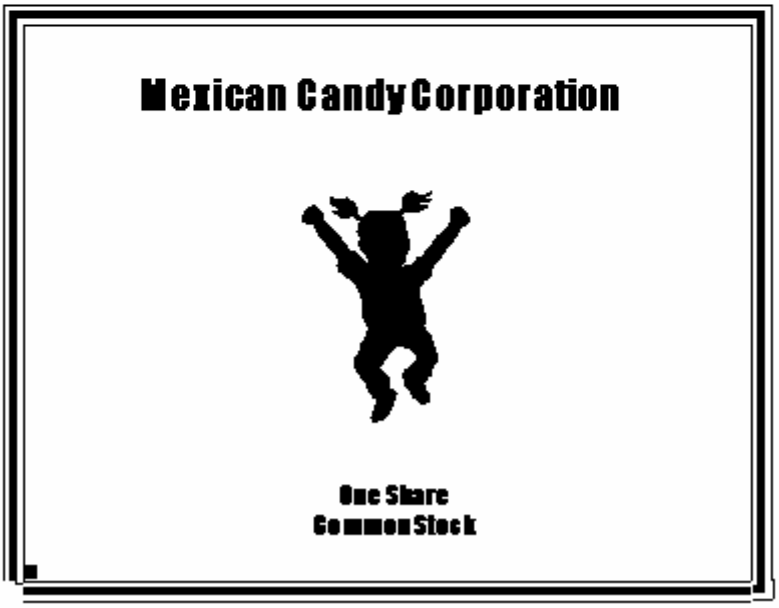
Fake Currency





Fake Stock Certificates





British Candy Company, Ltd.

One share
Common Stock

American Candy Corporation

One Share
Common Stock