

American Federal Government
Summer, 1998
The Iowa Electronic Markets Project

The Iowa Electronic Markets (IEM) is a service is run by the College of Business Administration of the University of Iowa. They are electronic futures markets that allow traders to bet on the outcome of international, national, and state elections.

The market operates like a stripped-down model of the Chicago futures pits, except that all trading is conducted on the World Wide Web at <http://www.biz.uiowa.edu/iem>. Participants can open accounts with up to \$500.00 and trade any of the available contracts. Contract bundles cost \$1.00 to buy. Traders make their bet by selling units they think will lose. When the contracts expire (usually on just after an election for political markets), payoffs are made to contract holders. In a "winner-takes-all" election market, the winning candidate's contract pays \$1.00 and the loser's are worthless. In a "vote-share" election market, the contracts pay off in proportion to the votes received by each candidate.

The IEM is aimed at providing a hands-on experience to students. We will be utilizing the markets on U.S. political races. You will access these markets via the Internet and be engaged in trading "futures contracts."

You will each be provided with an initial endowment of \$5.00. You will make decisions about your "investment" either individually or with a small group of others in the class. At the end of the term (or when the specific market in which you have invested closes), you will receive whatever account balance you have to liquidate.

Your "endowment" is provided by a Fund for the Improvement of Post-Secondary Education (FIPSE) grant in which I am participating. At the end of the term, the money you have in your account is yours BUT it is yours ONLY if you have actively used the account. If you try to "cash out" an account that was never traded, you can't do it.

The IEM Project in your syllabus is valued at 20 points. Those points will be awarded as follows:

- Completion of at least two (2) trades 10 points.

- Write-up (1 pg., double spaced) on what you learned about futures trading - 5 points.

- Write-up (1 pg., double spaced) on what you learned about the issues in the specific futures market in which you traded (the campaign, race, etc.) and how they affected the value of your contracts. - 5 points.

You do not have to make money to get credit!

Access codes, web site instructions and other needed information will be distributed in class.