

THE UBC ELECTION STOCK MARKET: An Introduction

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What is the UBC Election Stock Market?

The UBC-ESM is an exchange in which traders buy and sell financial contracts representing political parties participating in real elections. This year the exchange includes three markets involving the 2005 British Columbia provincial general election and one market related to the Provincial Referendum on Electoral Reform. The **Seats Market** is the principal election market. Three contracts are traded in the Seats Market, one representing each of the two major parties plus a final contract covering all others. Those contracts are identified as follows:

BC05.S.LIB	--	the Liberal Party
BC05.S.NDP	--	the New Democratic Party
BC05.S.OTR	--	all other parties

The second election market operated by the UBC-ESM is the **Majority Government Market**. There are three contracts in this market corresponding to a Liberal majority government (**BC05.M.LIB**); an NDP majority government (**BC05.M.NDP**); and all other outcomes (**BC05.M.OTR**) -- i.e. either a majority of some other party or no majority. The third market operated by the UBC-ESM is the **Popular Vote Market**. Four contracts representing the political parties are traded in this market, **BC05.P.LIB**, **BC05.P.NDP**, **BC05.P.GRP** (Green Party), and **BC05.P.OTR**. This year, the UBC-ESM is also operating a market on the BC Provincial Referendum on Electoral Reform in which two contracts are traded: **BC05.R.YES** and **BC05.R.NO**.

The UBC-ESM has been operating markets on federal and B.C. provincial elections since 1993 and is modeled directly on the Iowa Political Stock Market which has been running successfully since 1988.

Why does the UBC-ESM exist?

The UBC-ESM is operated by the *Phelps Centre for the Study of Government and Business* in the *Sauder School of Business* for educational and research purposes. For the directors it is a field experiment designed to study the predictive power of markets, the behaviour of traders, and the dynamics of the political campaign. Participating traders are provided the opportunity to learn about financial markets through direct participation, and the motivation to follow the 2005 B.C. provincial election campaign more closely. They also realize the opportunity to make or lose money.

How can I make money by participating?

As in other financial markets, you make money by "buying low and selling high." Contracts will earn post-election dividends, or liquidation values, which depend on the outcome of the election. While the market is operating you will earn profits by selling contracts at prices higher than you paid for them (and lose when you sell for less than the prices you paid). When the market closes you will make profits when the liquidation value of your contracts exceeds the prices you paid for them (and lose when the liquidation values are less than the prices you paid).

How are liquidation values determined?

Upon liquidation, each contract in a particular party in the **Seats Market** will earn \$1.00 times the share of seats in the Provincial Legislature won by that party. For example, if the Liberal Party won 50% of the seats in the Legislature, each **BC05.S.LIB** share would pay 50¢. Shares of "Others" (**BC05.S.OTR**) will pay \$1.00 times the share of seats in the Legislature won by candidates not affiliated with either the Liberal or New Democratic Parties. In the **Majority Government Market**, a share of **BC05.M.LIB** pays \$1 or \$0 depending upon whether that party won a majority. If either the Liberals or New Democrats do win a majority, **BC05.M.OTR** shares would be worth \$0 each, while they would be worth \$1 if neither party won a majority. This could be due to the fact that some party other than the Liberals or New Democrats won a majority or to the fact that no party won a majority. In the **Popular Vote Market**, each contract in a particular party will pay \$1 times the share of the provincial popular vote received by that party. For example, if the New Democratic Party were to receive 41% of the popular vote, each **BC05.P.NDP** share would pay 41¢. In the Referendum Market, **BC05.R.YES** will pay \$1 if the referendum passes (and \$0 otherwise) while **BC05.R.NO** will pay \$1 if the referendum fails (\$0 otherwise).

When does the market open and when will it close?

The market opens for trading at 00:00 Pacific time, February 1, 2005 and it will remain open until 23:00 Pacific time May 16, 2005 — the evening before the election. Traders can open accounts or add cash to existing accounts at any time prior to the close of the market.

How much can I invest in the UBC-ESM and what is the minimum investment required?

The minimum investment in an UBC-ESM account is \$25.00 and the maximum is \$1,000. The amount you invest will be posted to your cash account. Funds from this account can then be used in any or all of the three markets to buy individual contracts from other traders or from the UBC-ESM system. Similarly, sales of contracts are credited to the cash account and when the market closes, the liquidation values you earn on contracts will also be credited to this account. Funds remaining in your cash account after the election, including the credits from liquidations, will be refunded to you.

Are there any commission or enrolment fees?

No commissions or other fees are charged to traders. The only payments you will make to the UBC-ESM will be the amounts you choose to invest in the market, and the total of all invested funds will be redistributed to traders in the form of dividends or cash balance refunds. All receipts from market participants will be held on deposit by the University of British Columbia and any interest earned is applied to help cover expenses associated with operating the market. The UBC-ESM is operated as a research experiment and all administrative costs are paid from research funds.

How do I make trades?

The UBC-ESM is a fully computerized market with no brokers or other middlemen. Registered traders log into their market accounts from their own computer terminals to check market prices or account information and to extend offers to buy or sell. Cost free access is available from virtually any personal computer or terminal attached to the Internet. All you need is a recent vintage web browser such as Netscape, Mozilla, Firefox, Safari or Internet Explorer. The market remains open 20 hours a day between 03:00 and 23:00 Pacific Time.

Can I find the current market quotes without enrolling?

Yes, information on market prices in the various markets is available to the general public on our 2005 Election/Referendum site: <http://esm.ubc.ca/BC05>.

Where can I get additional information?

A great deal of information, including all the documents needed to register, is available on the UBC-ESM Website at <http://esm.ubc.ca>. Once traders have the Trading Manual and application form, they can register online or mail in their registration and begin trading.

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