

A Futures Trading Project to Promote Active Learning in Agricultural Economics Courses

Economics Education Poster Session

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In our agricultural economics courses we often encounter students who initially have trouble interpreting how information is absorbed in markets. For example last semester a student wrote that because a USDA report came out yesterday saying there might be a drought in July in the Midwest, he expected price to spike in July; the student failed to predict that prices were already adjusting upwards leaving less room for prices to spike in July. The issue often gets even more complicated as we introduce futures markets for agricultural commodities to our students. To help students understand the effect of expectations on prices, we have created a futures trading project and accompanying report. In the project, students work in pairs to form trading strategies for agricultural commodities and then actually make the trades in a simulated futures market. We use an online service to facilitate our futures trading game, with an accompanying fee of less than \$10 per student. We also make links to recent newspaper articles available on the course website for students to keep up with this year's agricultural growing seasons and general economic indicators relevant to the futures market. Much like the rough draft process in writing, students must make at least two trades within the first week of trading to get them acquainted with how the online trading service works.

The project offers students an experiential way to learn about fundamental analysis and technical analysis as they initiate trades based on supply and demand expectations and use price and volume charts. An aspect that students particularly like is that we participate as well. Throughout the semester we often begin class by showing the leader board for trading teams' performance and ask some of the student teams about their trading strategies. At the end of the project we provide students an opportunity to solidify their knowledge as they prepare a final trading report. The report also includes a section on investor psychology, asking students to reflect on their own trading experiences and focuses the behavioral economics literature as they consider any possible cognitive biases that may have influenced their decision making. Students come to class motivated and prepared to contribute to group discussions about hedging risk and why futures markets are so important for farmers. We are careful to explain that the majority of inexperienced traders lose money in the futures market and find that students gain an appreciation of risk when they experience it firsthand.

Our poster pairs a complete description of our strategy to implement the futures trading project in our own two courses: *Introduction to Food and Agricultural Markets* and *Advanced Food Economics and Marketing* with a strategy for how the project can be replicated in other courses. We include excerpts from our students' trading reports about how the project specifically increased their understanding of how information is absorbed in markets, as well as much more broadly about how it deepened their understanding of the intertwining of psychology and economics in the decision making process.

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