

Oil Price Hedging Game

You are an economist for a large commercial vehicle fleet operation that is charged with minimizing oil price risk. You must acquire 5,000 BBls of crude oil by close of business November 23rd for immediate use.

Your goal is to minimize the average price you pay for these 5,000 BBls. You may also speculate in order to gain a profit by buying and selling oil contracts in the short term. The “winner” of this game will be the economist with the lowest final amount according to the following:

$$\text{Final Amount} = \text{Average Price per Barrel} - \text{Market Gains (+Losses)}$$

The maximum amount of positions you may hold at any point in time is 10 contracts (each contract is 1,000 BBls). On December 4th if you hold less than 5 positions you must purchase the remaining amount necessary at the market price. If you hold more than 5 positions at this time you must sell at the market price.

The price that will be used on each day of trading (Tuesdays and Thursdays) is the Bloomberg WTI price quoted at 9:30 PM. (www.bloomberg.com/energy)

Points are allocated as follows:

- Participation – Quiz grade of 100
- Positive trading position – 3 points toward test grade
- Winner – 5 points toward test grade