

Poker Chips Game: Explained

The purpose of the exercise is to derive or simulate the circular flow of income (depending on whether you decide to run the game before or after teaching the model).

Essentially, half of the class are 'households' and half are 'firms'. Households give up their resources (denoted as black chips) to the firms for money (red chips). They have 3 black chips each at the start of the game. The firms then produce output from their resources (this is simulated by the teacher exchanging the black chips for white chips – at a 1:4 ratio). The firms then sell these chips back to the households for money (red chips). And thus the circular flow is complete. Households sold their resources for money and then used their money to buy the output that the firms made. You can repeat the activity now several times.

As a means of simply simulating the circular flow, this is enough. The only rule is that people (households and firms) must spend all their money. This is because withdrawals and injections (esp, Savings have not yet been built into the simulation). This can be tricky to enforce.

You can develop the game to derive average wages and average prices by dividing the total number of black chips by the number of red chips that were exchanged (av. wage). And then if you feel really brave you could inject some more money (red chips) into the flow which would have the impact of firstly ensuring that all of the black chips were exhausted and then higher wages ensued (inflation).