How to Make Monopoly More Realistic
By Matthew C. Klein - Oct 30, 2013

Ben Steverman, a personal finance writer with Bloomberg News, is disappointed with games meant to increase financial literacy because they aren't much fun. Fortunately, there is an alternative that is both educational and entertaining: a variant of the classic board game Monopoly I like to call Deregulated Monopoly. (I didn't invent the general concept, which seems to come from multiple sources.) Children of all ages who play this game will learn why a seemingly stable financial system can fold faster than a cheap deck chair on Atlantic City's beach.

The biggest problem with the official rules is that it's unrealistically difficult to borrow money. You can't even collect rent from properties you have mortgaged. Yet leverage is the special sauce driving booms and busts since the beginning of civilization. The Bible repeatedly mentions the importance of regular debt forgiveness, yet traditional Monopoly makes it hard to understand why.

Four changes turn the classic game into its deregulated -- and more educational -- variant:

1. Let every player borrow and lend from any other player. They are free to negotiate all terms, such as the interest rate, the repayment schedule, collateral and down payment requirements (if any), and what happens in the event of default. This allows players to borrow before buying any property.

2. Players who lend cash in exchange for pledges to be repaid can use those promises to secure loans from other players. They can also sell them.

3. Let players sell shares of the rental income generated by specific properties. The stakes can be traded and used as collateral for loans. Players can set their own rules about dilution and how to finance additional investments on their properties.

4. Let players write derivatives contracts with other players, such as insurance policies that pay out when a player lands on specific properties and options contracts that give a player the right to buy un-owned properties at preset prices from another player if he lands on it first.

These rule changes create opportunities for cooperation, as well as the possibility of crises. That's because most players will probably end up owing far more than they can hope to repay if they ever have to cover all of their debts at once. A few unfortunate throws of the dice can create situations where there literally isn't enough money in the game. This creates a great opportunity for players to learn how debts get restructured, as well as the importance of knowing everyone's place in the hierarchy of the capital structure.

Players who go through this often enough may come to the same conclusion that many others have reached in the real world: The "bank" should intervene. It could make shortterm loans to those facing temporary cash shortages in exchange for collateral -- physical property or other financial claims. It could issue new currency and give it to every player, or, as a variation, simply add a zero to every note currently in circulation. Players could see how these different policies -- and others, be creative! -- affect the prices of their assets before and after crises, as well as the incentives to engage in different behaviors.

I'm looking forward to teaching my children this game one day. Maybe they, and everyone else who learns to play Deregulated Monopoly, will be able to protect themselves from the market's wildest swings.