



## **EconoMag**

**The Show that demystifies Economics**

**Virtual Economies – part 2**

**Gaming Goods©**

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Hi there EnglishWaves listeners, we have a brand new edition of Economag for you here today. So, as you'll recall, we're looking at virtual economies, we considered what a virtual economy is, what type of products or services are traded in these economies, and we also started thinking about what virtual currencies are. We looked primarily at Bitcoin, but that's not the only interesting example to consider when it comes to virtual money, and what that can buy in both the real and virtual worlds.

An interesting place to start would be to consider the gaming world, where in large part some of the first burgeoning virtual economies developed. Online multiplayer games such as World of Warcraft or Minecraft host millions of active users on a daily basis. Now people certainly play these games for the game itself, however I think it has become clear that people are also attracted to the social element that online gaming platforms provide - in other words, interaction with fellow gamers, whether they be friends or family. Virtual economies in online gaming developed as a result of the demand for virtual goods, products or services that are part of the stories or narratives in many of these games. Now a way of thinking about this is that virtual economies essentially make billions of real currency, say US dollars or euros, by selling goods that don't really exist. That in itself is rather fascinating. If you remember we said that this means there's no real physical delivery of any sort.

The sale of virtual goods is one of the hottest trends in technology right now. But to make this simpler to understand, let's quickly run through an example of how an exchange in the virtual economy in the online gaming world would work. Let's say we're all playing the fictional online game Farmtopia, which was created by the fictional company X-Games; there the game is about creating your own virtual farm, and, well, farming crops. For the sake of our example, we'll say we're virtually farming wheat. Now X-Games might offer us the option of buying in-game fertilizer for our virtual farm, and to do so we would need to pay X-Games real world currency, say euros, for our virtual fertilizer. Notice how we've spent real-world currency for something that doesn't really exist: X-Games can create this virtual fertilizer by the click of a button - yet you and I don't earn our real world currency in the same way!

So far, so good! Now where it gets slightly more complicated, yet infinitely more interesting, is that in Farmtopia, we might be able to sell our in-game fertilizer to other players in exchange for let's say virtual farming equipment, or the virtual currency that is used in

Farmtopia - let's call that currency Farm dollars. We might also be able to sell the virtual produce from our farm to other players, remember we said we would be growing wheat.

Now with all that it becomes clear how the real world can be mirrored in the virtual economy...or in the virtual world. The link of course between the virtual and real world economies would be buying and selling goods or services in the virtual economy with real world currency. So again to go back to our example, we said that we bought fertilizer with our real-world euros. Now, there might also be an option - as there often is - to sell our virtual goods to people for real-world currency, or euros. We could farm lots of wheat in Farmtopia, another player somewhere in the world could highly value it, and might be willing to give us real-world currency for it. Remember we said that gamers are often interested in virtual goods as it helps them progress faster through the game. And this is essentially a market, as demand and supply of virtual goods determine the price - or in other words, how much other people want to buy, and how much people have to sell will determine the value of the virtual goods.

Now it's all well and good to talk about this theoretically, but how often does this happen in the real world? What type of trade volumes do we see in virtual economies that ultimately translate into real-world currency exchanges? Well, for a start, virtual goods often make up 90-95% of the revenue for the game developers. Blizzard Entertainment's fantasy online game World of Warcraft actually has a floating exchange rate between the US dollar and the in-game currency. A more tangible example would be American start-up Lightspeed Venture Partners, which made headlines after investing about \$10 million in virtual goods. They're primarily buying virtual fertilizer and seeds that are extremely popular and underpinned by strong demand in the world's online farming games.