



Virtual gaming's elusive exchange rates

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In the world of online fantasy games, you can always buy more virtual assets if you've got a real-life credit card.

If you happen to find yourself short of fantasy gold pieces for the purchase of that battle hammer in the game "World of Warcraft," for example, you can surf to one of the many third-party Web sites trafficking in "World of Warcraft" gold, pull out your credit card and exchange real dollars for fantasy coinage.

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What's new:

People who play online fantasy games routinely buy and sell fantasy-game currencies and other cyber-game assets using real dollars, sometimes on Web sites hosted by the game developers, sometimes on third-party sites.

Bottom line:

Because there is no regulator controlling exchange rates for virtual currencies, rates vary widely from site to site, making market prices for virtual currencies difficult to track. These micro-economies fascinate academics, who point out that as the volume of virtual-currency trades increases, so will the tax implications, which may eventually force the exchanges to regulate their pricing.



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At the Web site IGE.com, \$51.99 can get you 500 "World of Warcraft" gold pieces, enough virtual currency to buy you the handy Hammer of the Titans weapon. IGE and its competitors also sell the virtual currencies of other major online games such as "Everquest," "Ultima Online" and "City of Heroes."

But according to two of the leading experts in the economies of these virtual worlds, getting a fair price in the exchange of real dollars for fantasy coins can be a crapshoot. Turns out it's hard to find reliable data about the dollar/virtual currency exchange rates in a pretend world where there's no Alan Greenspan setting interest rates and scolding everyone about irrational exuberance.

"I have looked at this data acquisition issue for some time and...keep hitting a brick wall," said Dan Hunter, an assistant professor of legal studies and business ethics at the Wharton School of the University of Pennsylvania.

Given that millions of real dollars are being spent every year on these virtual currencies--perhaps as

much as \$880 million annually--buyers could well be getting short-changed if they're paying sellers more than the true value, whatever it is, for their gaming gold. While some game companies try to keep a tight lid on rates of exchange between real dollars and fantasy coins on their own sites, they can't control the impact of secondary exchanges.

Here's how it works: Since most multiplayer games allow players to transfer their virtual gaming possessions, enterprising players can temporarily leave the gaming world and buy and sell their virtual currencies on exchanges like [IGE](#) and auction giant eBay.

Players looking to sell or buy typically use the secondary exchange sites to find one another. On IGE, for example, a buyer and a seller can strike a deal for 10 million "Ultima Online" gold pieces and exchange real dollars for them. But in order to transfer the fantasy gold, they have to meet up back in the gaming world for the handoff of the goods.

IGE also acts like a middleman, buying with real money fantasy coins from game players and, in turn, selling them to other players.

It's the currencies and the behaviors of these massive multiplayer games' virtual economies that fascinate academics who find that they often mirror real-world economies and can sometimes predict the way people behave in the real world. And like the black markets of the real world, the secondary exchange sites of the fantasy gaming world are a difficult-to-quantify factor.

One Chinese Web site, GameUSD, is trying. [GameUSD claims](#) to have the most up-to-date exchange data for several of the biggest games. Its results show that, ironically, given the dollar's weakness in world markets, in almost every case, the games' currencies are losing value against the greenback because of inflation.

The problem is pretty simple: Without a central bank controlling the flow of all this virtual currency, more and more of it floods the market every day. So what can buy a castle today is perhaps only enough to buy a battle ax tomorrow.

GameUSD's lead researcher, Tianmin Zhu, said he and his colleagues collected the data by aggregating exchange rates from a number of secondary exchange sites, including IGE.

But Hunter, who is a co-editor of [Terra Nova](#), the leading Web site about virtual economies, and [Ed Castronova](#), another Terra Nova co-editor and a professor at Indiana University, think the task of figuring out the real exchange rates is currently too complex for GameUSD to calculate with any high degree of accuracy. There are simply too many different marketplaces for the gold pieces and other currencies, they said.

"Two or three years ago, eBay was the only market," said Castronova. But then eBay began doing things to make it hard to get a representative sample, such as charging for pricing data. "You used to be able to download whole pages and export them to a spreadsheet," he said. "Now you can't even get a median price figure."

For his part, GameUSD's Zhu said his site's data is accurate, though he allows that there may be some discrepancies. And Castronova said he thinks that GameUSD's data at least appears close to realistic.

Most developers have a policy against publicizing their games' economic data. That's because publishers, in most cases, designed their games to be virtual playgrounds, not virtual economic markets.

"To a certain extent, we don't keep that data, because it isn't important to us," said Sam Lewis, a senior game designer at Sony Online Entertainment who oversees the economy of the multiplayer game "Star Wars Galaxies." "Our goal is to make a fun game."

Ironically, Sony Online recently became the first major multiplayer game publisher to run its own version of a secondary market. The so-called Station Exchange allows "Everquest 2" players to buy and sell the game's goods in a controlled environment.

Though IGE is considered the main exchange for virtual goods, the company is aware that coming up with accurate exchange rate data can be tough.

"It's a very dynamic marketplace," said Steve Salyer, IGE's president. He added that because large multiplayer games often segment players onto different servers to keep the volume manageable, the prices for games' virtual goods may differ from server to server.

Never mind inflation, we're talking micro-economies. That means exchange rates are based solely on supply and demand and can differ even within the game. Nonetheless, the game developers have an easy way to handle in-game inflation, said Castronova.

"They can just add zeros to the database," he said.

While it may be hard today to arrive at accurate exchange rate data, many think this dynamic will change over time, mostly because the overall value of the market will one day be too big for real-world governments to ignore.

"Eventually, there's going to be a portfolio of these synthetic currencies," said Castronova. "Cyberspace nations that are issuing these currencies are going to be under legal obligation to report sales and volumes and transactions, because in worlds where those currencies can be freely liquidated into dollars, there are clear tax implications."

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