

INSTRUCTIONS

The instructions for subjects in the durable goods monopoly experiments appear below. The instructions in boxes were provided at each subject's computer terminal - each box was a screen display. Subjects read through these instructions at their own pace.

Before subjects were seated at a computer terminal they were provided with printed supplemental instructions. At the beginning of each experiment the experimenter read the supplemental instructions aloud to all subjects who were to participate in the experiment. Supplemental instructions for bargaining experiments follow the computer instructions. Supplemental instructions for market experiments appear after the bargaining instructions.

**Welcome to the
University of Arizona's
ECONOMIC SCIENCE LABORATORY**

Since you will be paid for your participation in an experiment, we are required to record some personal information for administrative purposes. However, in the experiment you will be entirely anonymous since we keep track of subjects using only their seat numbers. We are not interested in who did what; only in what people do on average.

Please press the SPACE BAR to continue

**Please enter the following information.
Use BACKSPACE to erase. Press ENTER when done.**

Your last name : test

Your Social Security Number : 789-78-9789

Your telephone Number : 789-8978

Please press the SPACE BAR to continue

This is an experiment in the economics of market decision making. Various research foundations have provided funds for this research. The instructions are simple, and if you follow them carefully, you may earn a CONSIDERABLE AMOUNT OF MONEY which will be PAID TO YOU IN CASH. You will be paid in private by the experimenter at the end of the experiment.

Press PgDn to continue.....

In this experiment, we will create a market in which you will be a buyer or a seller of a fictitious commodity in a sequence of market trading periods. Trading of the commodity will be conducted according to certain rules that are explained below. The computer will be used to provide you with information and to communicate information about decisions that you make to other subjects in the experiment.

Press PgDn to continue, PgUp to review

The experiment is divided into several 'sessions' of trading activity. During each session, one subject will be assigned the position of Seller and 1 buyer positions will be filled by other subjects. Each buyer will have the opportunity to purchase one unit of the fictitious commodity from the seller during a session.

Press PgDn to continue, PgUp to review

Each session contains one or more trading periods. The seller selects a price at the beginning of each trading period by entering a number at his/her terminal. After the seller confirms the price, the price is displayed on each buyer's terminal. A buyer either accepts or rejects the seller's price offer for the trading period. A buyer that accepts the seller's price offer will make no additional decisions for the session; a buyer can purchase at most one time during a session. A session ends when all buyers have made a purchase or when the final trading period of the session is completed, whichever comes first.

Press PgDn to continue, PgUp to review

A buyer's earnings during a session depend on the redemption values assigned to the buyer, the prices set by the seller, and the discount factors for trading periods of the session. At the beginning of a session a buyer's terminal display will list a sequence of redemption values for the trading periods of the session. The terminal displays for buyers and sellers will also list a sequence of discount factors for the trading periods of the session. These discount factors are the same for all the participants in the session.

Press PgDn to continue, PgUp to review

If a buyer elects to purchase a unit during a trading period then the buyer's earnings for the session will equal the difference between the redemption value and the price for that period, times the discount factor for that period. For example, if the redemption value is \$5, the price is \$3, and the discount factor is 0.9, then the buyer would earn $(\$5.00 - \$3.00) \times 0.9 = \$1.80$ by making a purchase. A buyer will not be permitted to purchase if the price exceeds the buyer's redemption value. A buyer that does not purchase during a session earns zero for the session.

Press PgDn to continue, PgUp to review

The seller is assigned a cost per unit at the beginning of a session. The seller earns an amount equal to the difference between the price he/she selects FOR THAT PERIOD and the cost per unit, times the discount factor for that period, for each unit sold during a trading period. For example, suppose that the discount factor is 1.0, the seller's cost per unit is \$0.50, and the seller selects a price of \$2.25. If buyers purchase two units in the trading period, then the seller's earnings for the period are $2 \times (\$2.25 - \$0.50) \times 1.0 = \$3.50$. The seller's earnings for the session are the sum of his/her earnings for the trading periods of the session.

Press PgDn to continue, PgUp to review

Press the R key to see the instructions again. Press the Q key to summon an assistant if you have questions. Otherwise, please be patient until the other players are ready.

(Bargaining)
SUPPLEMENTAL INSTRUCTIONS

This sheet provides you with information that will be useful to you during the experiment. This is a supplement to the instructions on your computer terminal.

Matching Buyers and Sellers

At the beginning of this experiment, six subjects will be selected to be buyers and six subjects will be selected to be sellers. The experiment is divided into several *sessions* of trading activity. At the beginning of each session, buyer and seller subjects will be matched together to form six pairs, with one buyer and one seller per pair. A buyer will have an opportunity to make a purchase from the seller they are matched with during a session, according to trading rules that are explained in the computer instructions. Before each new session, six new buyer-seller pairs will be formed and the session will commence. The experiment will run for between 6 and 12 sessions. Each buyer and seller will be matched with each other at least once and perhaps a second time during the experiment.

Buyer Redemption Values

A buyer's earnings depend on their redemption values. A buyer's redemption value for a session is selected randomly by the computer from numbers between \$0.00 and \$9.00. Each number in this interval has an equal chance of being selected. That is, each of the numbers \$0.00, \$0.01, \$0.02, \$0.03, . . . , \$8.97, \$8.98, \$8.99, \$9.00 has an equally likely chance of being selected as a buyer's redemption value for a session. A new redemption value for each buyer will be randomly selected at the beginning of every session during the experiment.

Seller Cost

The seller has a marginal cost per unit equal to zero.

Exchange Rate

The exchange rate is 100 percent for all subjects. That is, you will be paid \$1 in cash at the end of the experiment for each \$1 in earnings listed on your computer terminal.

Recording Earnings

There is a space on the back of this sheet where you can record your earnings for each session. Your computer terminal will show the earnings for each individual session but the terminal will not display earnings totaled for all of your sessions. At the conclusion of each session you should follow the instructions to continue to the next computer terminal display until you see a display that reads,

“Congratulations! This is the end of this session.
Your earnings have been calculated to be: \$_____”

When you see this terminal display you should write down your earnings and wait for one of the experimenters to reset your terminal for the next session.

EARNINGS RECORD

Session Number	Earnings
1	_____
2	_____
3	_____
4	_____
5	_____
6	_____
7	_____
8	_____
9	_____
10	_____
11	_____
12	_____
Total Earnings	_____
Name	_____

(Market)
SUPPLEMENTAL INSTRUCTIONS

This sheet provides you with information that will be useful to you during the experiment. This is a supplement to the instructions on your computer terminal.

Matching Buyers and Sellers

In this experiment fifteen subjects will be selected to be buyers and three subjects will be selected to be sellers. The experiment is divided into several *sessions* of trading activity. At the beginning of each session, buyer and seller subjects will be matched together to form three groups, with five buyers and one seller per group. Each buyer will have an opportunity to make one purchase from the seller they are matched with during a session, according to trading rules that are explained in the computer instructions. Before each new session, three new buyer-seller groups will be formed and the session will commence. The experiment will run for between 6 and 12 sessions. Each buyer will be matched with a specific seller at least twice and perhaps a third and fourth time during the experiment. The composition of buyers in a group will change between sessions, so that a seller will never be matched with the same five buyers in two different sessions.

Buyer Redemption Values

A buyer's earnings depend on their redemption values. A buyer's redemption value for a session is selected randomly by the computer from numbers between \$0.00 and \$12.00. Each number in this interval has an equal chance of being selected. That is, each of the numbers \$0.00, \$0.01, \$0.02, \$0.03, . . . , \$11.97, \$11.98, \$11.99, \$12.00 has an equally likely chance of being selected as a buyer's redemption value for a session. A new redemption value for each buyer will be randomly selected at the beginning of every session during the experiment. Buyers' redemption values are selected independently.

Seller Cost

The seller has a marginal cost per unit equal to zero.

Exchange Rate

The exchange rate is 100 percent for buyer subjects and 20 percent for seller subjects. Each buyer will be paid \$1 in cash at the end of the experiment for each \$1 in earnings listed on their computer terminal. Each seller will be paid \$1 in cash at the end of the experiment for each \$5 in earnings listed on their computer terminal.

Recording Earnings

There is a space on the back of this sheet where you can record your earnings for each session. Your computer terminal will show the earnings for each individual session but the terminal will not display earnings totaled for all of your sessions. At the conclusion of each session you will see the following terminal display:

“The session is over.
Your profit for the session is ____.
Press ENTER to begin the next session”

At this point, write down your earnings for the session in the space below. (Do not record your earnings for any practice sessions.) Then hit the ENTER key and wait for instructions from the experimenter prior to beginning the next session. The experimenter will explain how new buyer-seller groups will be formed for the next session.

EARNINGS RECORD

Session Number	Earnings
1	_____
2	_____
3	_____
4	_____
5	_____
6	_____
7	_____
8	_____
9	_____
10	_____
11	_____
12	_____
Total Earnings	_____
Name	_____