

Bidder No. _____

EXPERIMENTAL INSTRUCTIONS (v3.1.50)

1 . INTRODUCTION

This is an experiment in the economics of market decision making. Depending upon the decisions that you and other participants make, you have the opportunity to earn a considerable amount of money which will be paid to you in a check on a research account at the end of the experiment. Under no circumstances will you leave the experiment owing money to the experimenters. Your rights as a subject in an experiment have been explained to you in your sign-in document. Except as you might be directed in these instructions or by the experimenter, please do not talk or otherwise communicate with any other participant during the course of the experiment.

2 . TODAY'S MARKETS

First, we must mention that from this point on, all dollar amounts, unless otherwise specified, are “experimental dollars” (E\$). At the end of the experiment, you will earn 25 U.S. cents for each one experimental dollar that you earn. Thus, if your payoff earnings say \$5.00 (E\$), you will actually earn \$1.25. If your earnings say \$8.00 (E\$), you will actually earn \$2.00 and so forth. The only amount that does not get adjusted by this exchange rate is your \$7.00 for showing up. That \$7.00 is already guaranteed in U.S. dollars. Therefore, from this point on, all costs, values, payments profits and so forth that we use will be *experimental dollars*.

Around this room you will see 16 “auction stations”. At each station there is a different hypothetical item for sale by auction. Each item is known by a letter, which has no other meaning other than to identify each item. There is exactly one item for sale at each auction station.

The process for selling each item is as follows. At each station, there is a paper marked with the letter designation for the item for sale. If you wish to make a bid to purchase that item, please sign your bidder ID number (shown at the top of this page), your bid, and the time, as shown on the official clock (on the screen). *Any* opening bid is allowed to start the auction. Once there is a bid on the bid sheet, any new bid is allowed so long as it is at least 50 cents greater than the previous bid. We say that 50 cents is the “minimum bid increment” and it is noted on the bid sheets. The experiments will be circulating through the room, and we will disallow any bid that does not meet this requirement.

You may make bids on as many or as few of the 16 items as you like. All auctions close at the same time (12 minutes elapsed time on the official timer). The winning bidder for each item is the last (highest) bid on the bid sheet for that item. The winning bidder pays his/her own last (highest) bid to the experimenter. Different bidders may very well bid on different items. A single bidder may win zero, one, two, several, or even all of the items.

3 . WHAT ARE MY VALUES FOR THE ITEMS? HOW ARE THEY CHOSEN?

First, it is important to note that each of you begins with a \$5.00 initial reserve simply for participating. This is in addition to your “show up” fee. All earnings from the auction markets are on top of this \$5.00 (remember, all amounts are in experimental dollars).

At the beginning of each auction period, you will be given a “payoff chart” so that you can keep track of your earnings. There is a column for each of the 16 items. The next row is labeled “my value for this item.” The number in that row represents how much we will pay to you if you win the auction for that item. Some of these entries may be “zero.” If you win the auction for that item, then the following is how your earnings are calculated:

$$\begin{array}{r} \text{MY VALUE} \\ - \text{MY WINNING BID} \\ \hline \text{MY EARNINGS} \end{array}$$

If you do not win an item, your earnings at that auction station are zero.

Suppose, for example, your value for an item was \$24.00, and you won the auction with a bid of \$21.40. Then, your earnings would be :

$$\$24.00 - \$21.40 = \$2.60 \text{ (remember, experimental dollars).}$$

(These numbers are for illustrative purposes only and have no meaning for the actual experiment).

Where do these values come from? That is a very good question. The values for each item generally differ from one bidder to another. That is why we used a random process to hand out the folders when you arrived. Furthermore, each bidder will generally have different values for different items, and different values for the same item between periods.

In choosing the values, we first decided for each item in each period how many bidders would have positive values. We used a random number process to choose, independently, a number of 2, 3, 4, 5, 6, 7, or 8 bidders having positive values. Each number was equally likely. Then, we used a similar random number process to decide which bidder IDs would be the bidders with the positive values. Each bidder ID was equally likely to be chosen for each item. Finally, for those bidder IDs with positive

values on a particular item in a particular period, we drew a different value number from the set of number \$00.01, 00.02, ..., 19.99, 20.00. Each value was equally likely.

Notice that this means there will *always* be at least two bidders with positive values for each item.

In other words, consider the G object in round one. First, a random number process might tell us that three bidders will have positive values. Then, a second random number process might tell us that the three bidder IDs to receive the positive values for the G object are 1,3, and 4. Finally, we would then draw three random values between 00.00 and 20.00, say \$0.78 for 1, \$2.08 for 3, and \$18.74 for 4. All other bidders would have value \$00.00 for G for round one. Different numbers, IDs, and values would be drawn for each object in each round. These numbers are hypothetical and have no relation to the actual numbers drawn, but they illustrate the process we went through for each object, and each bidder, in every round.

Your earnings in any one period are the sum of all of the earnings on items you won. Your earnings (in experimental dollars) in the entire experiment are the sum of your earnings in each round.

4 . CLOSING THOUGHTS

As described above the values for the items are likely to be different from one bidder to another, from one item to another for a particular bidder, and from period to another. Recall that these are chosen independently, so that if you get several very low or very high values it means nothing for what might happen in the future.

All bidders are expected to cooperate with the rules of the experiment. By agreeing to participate, you agree to follow the rules, and you understand that anyone who does not do so may, at the discretion of the experimenter, be asked to leave the experiment with only the "show up" fee of \$7.00.

It is possible to lose money in an auction. This will occur if you bid higher than your value on an item and you win the auction. In such a case, $\text{YOUR VALUE} - \text{YOUR WINNING BID}$ would be negative. We do not stop anyone from doing this, however, if you bid less than or equal to your value, you will never be in a position to lose money. If you do make decisions such that you lose money, we will subtract it first from your accumulated earnings, and second from your \$5 initial reserve. Any bidder who loses so much money that he/she has eliminated their accumulated earnings and their \$5.00 initial reserve will be allowed to remain in the experiment only under a rule that they bid less than or equal to their value on each item from then on out.