

INSTRUCTIONS

[Hand out the informed consent form]

This is an experiment in the economics of market decision making; it is funded by the National Science Foundation. The instructions are simple. If you follow them closely and make appropriate decisions, you may make an appreciable amount of money. These earnings will be paid to you, in cash, at the end of the experiment.

In this experiment you will participate in a market of nine people – the participants in this experiment. There will be a number of market periods. In each period, every participant will choose a value of X . The values of X you may choose are 1, 2, 3, 4, 5, 6, 7. The value you choose for X and the smallest value of X chosen by a participant in this experiment will determine the payoff you receive for that period.

You are provided with an EARNINGS TABLE that shows the potential payoffs that you may receive. Please look at this table now. Note that the EARNINGS TABLE is the same for every participant in the experiment. To convince yourself of this, look at your neighbors' screen now.

Earnings are in dollars. Only your earnings are shown in the EARNINGS TABLE. The earnings in each period may be found by looking across from the value you choose on the left-hand side of the table and down from the smallest value of X chosen by a market participant. For example, if you choose a 4 and the smallest value chosen is a 4, you earn ... in dollars for that period.

To be sure that everyone understands the instructions so far, please fill out the sheet labeled QUESTIONS now. When you are done, hand this sheet to me and continue to read these instructions. If there are any mistakes on the question sheets, I will go over the instructions again.

We continue with the instructions. Each period consists of a message stage and an action stage.

In the message stage every participant enters the value of X he or she wishes to send. Messages you may choose are 1, 2, 3, 4, 5, 6, 7. You may choose a message to indicate the value (action) that you plan to choose in the action stage. When everyone has sent a message, you receive a summary of all the messages sent. Please note that messages that you send do not affect your earnings.

In the action stage that follows each message every participant also enters the value of X he or she wishes to choose. The action (value) that you choose does affect your earnings.

Please look at your RECORD SHEET now. It designates you as participant Your RECORD SHEET has the following entries: MARKET PERIOD, BALANCE, YOUR CHOICE OF X , SMALLEST VALUE OF X CHOSEN, and YOUR EARNINGS. At the beginning of each period, record the current period, your current balance, and your choice. [In the first period your BALANCE is In the second period your BALANCE is the value of your earnings in the first period. In the third period your BALANCE is the value of your BALANCE in the second period plus the value of your earnings in the second period, and so on.] At the end of each period, record the smallest value of X chosen; record your earnings; and calculate your balance for the next period. Record only your decisions in the action stage.

Are there any questions?

[Let participants fill out and sign the informed consent forms and collect them.]

You may now enter the message that you wish to send for the first period.

QUESTIONS ...

regarding the EARNINGS TABLE:

If your choice of X is 2 and smallest value of X chosen is 2, your earnings are ...

If your choice of X is 7 and smallest value of X chosen is 4, your earnings are ...

If your choice of X is 6 and smallest value of X chosen is 2, your earnings are ...

If your choice of X is 2 and smallest value of X chosen is 2, your earnings are ...