

Instructions

You are participating in an experiment in economic decision making. In this session, you will participate in FOUR markets, one practice market and three real markets. The practice market will continue for two or three periods. The real markets will continue for 10 periods each. You will be paid for your participation. The amount you receive will depend on the decisions you and the other participants make during the real markets. You will be paid in cash at the end of the session.

In each market you represent a firm which uses several inputs to produce a product. One of the inputs, called **leets**, is very scarce and the government has decided to ration it. It has distributed a number of ration **coupons**. Each coupon allows you to use one unit of leets.

Each period you receive revenues from selling your product and incur costs from purchasing inputs. The difference between your revenues and the cost of all inputs **except leets** is called your **net sales revenue**. It may be positive or negative.

Every unit of leets you use reduces your costs. The sum of this cost saving and your net sales revenue is your **total operating profits**. This can be shown in a table.

Units of Leets	Coupons Required	Net Sales Revenue (cents)	Total Operating Profit (cents)	Redemption Value of this Coupon (cents)	Total Value of Coupons (cents)
0	0	300	300	0	0
1	1 owned	300	550	250	250
2	2 owned	300	700	150	400
3	3	300	750	50	450

Please note that this table is only an example. The numbers in the experiment are quite different.

The table shows that using one coupon (rather than none) raises operating profits from 300 cents to 550 cents, that is by 250 cents. Accordingly, we say that the redemption value of the coupon is 250 cents. Similarly, the redemption value of the second coupon is 150 cents and the redemption value of the third coupon is 50 cents.

Please answer the following two questions, writing your answer in the space provided. When you are finished, raise your hand so I may check your work.

1. Suppose that you own two coupons (shown as “owned”). What is the *most* money that you be willing to pay for one more coupon?

Answer: _____

2. Suppose that you own two coupons (shown as “owned”). What is the *least amount* of money that you should accept in return for selling one coupon.

Answer: _____.

Trading Coupons

In this session, some participants will be given some *shares*. Each share entitles that participant to one coupon at the beginning of each period.

These participants can

- keep their coupons to increase their operating profit
- buy more coupons to increase their operating profit even further, or
- sell one or more of the coupons that they own.

Their profit for the period will be

- the money received for any coupons they sell while trading
- **less** the money paid for any coupons they buy while trading
- **plus** the redemption value of the coupons they hold at the end of the period,
- **plus** their net sales revenue (which may be negative)

Other participants will not have any shares, so they will not own any coupons at the beginning of the period. These participants can choose to buy coupons. Once they have bought one or more coupons, they can use them

- to increase their operating profits or
- to sell to another participant.

Their profit for the period will be

- the money received for any coupons they sell while trading
- **less** the money paid for any coupons they buy while trading
- **plus** the redemption value of the coupons they hold at the end of the period,
- **plus** their net sales revenue (which may be negative)

The Double Auction Market

You will have the opportunity to buy and sell coupons in a computerized double auction market. In this market you can offer to buy a coupon for a certain amount. This is called a **bid**. You can offer to sell a coupon for a certain amount. This is called an **ask**. Finally, you can **purchase** a coupon by paying the price someone has **asked** or you can **sell** a coupon for the price someone has **bid**.

Practice Market

We will now demonstrate how this market works by working through a practice market. Please follow the experimenter's instructions as he leads you through the following steps. Please do not begin any step before being asked. Please raise your hand if you have any questions during the practice market.

You will not be paid for the results of this practice market.

1. Please wait for us to bring up a program on your computer screen. You will see a **welcome screen**.
2. When instructed, press a key to bring up the **login** screen. Enter your name, student number and telephone number
3. When instructed, press the space bar. Eventually the **Start of Period 1** screen will appear. Note that coupons have not yet been distributed. You all have 3 shares, 0 coupons, and 0 cash.
4. When instructed, push F4 to open the Resale Values window. This shows the redemption values of each coupon you might acquire. These values are like the Redemption Values in the Table on page 1.
5. When instructed, push ESC to exit from the Resale Values window. Push F10 to start the distribution of coupons for this period. A message will inform you how many coupons you have received. Note that your inventory is updated. You now have 3 coupons.
6. When instructed, press any key to bring up a blue menu bar. Press F4 to view the resale values again. Notice that the coupons you own are flagged as "owned".
7. The experimenter will ask you how your operating profits will change if you buy or sell one more coupon.
8. The experimenter will ask you how your operating profits will change if you buy or sell one more coupon., push ESC and F10. The **wizard screen** will appear. The wizard knows your redemption value schedule. It calculates how much your operating profit will change if you buy or sell one more coupon. Note that the wizard will update its advice every time you buy or sell a coupon.
9. The experimenter will ask you to use the information from the wizard.
10. When instructed, press a key to open the **primary coupon trading market**. The experimenter will ask you to make bids, asks, sales, and purchases.
11. You will receive a message period is over. When instructed, push any key to bring up the *Production Screen*. This screen reports the number of coupons you will redeem this period and how much you will earn. In this session, you must redeem all your coupons.
12. When instructed, push the keys to start the next trading period.
13. When instructed, continue trading in the practice market.
14. You will be told when the practice market is now over. Please notice the final payoff screen. This tells you how much you have earned in this market. You will not be paid for this market. However, for the next three markets, you will be paid the amount shown on the screen. Please note that the conversion rate is 1 Canadian cent for every unit of "cash" that you hold at the end of the market.

Trading for Keeps

This completes your training . We will now begin the main part of the session. This part of the session consists of three markets. Each market will last for 10 periods. During these 10 periods your redemption values will not change. After each of the first two phases we will restart the computer program with a different set of redemption values. Your final payoff will be the sum of your earnings in each of these three markets.

In your folders you will find a **Payoff Record** form. Please record your earnings from each of the three real markets on it. The total is the amount of money (in Canadian cents) that will be paid to you at the end of the session.

Remember that in this session, all bids, asks, purchases and sales are conducted in Canadian cents. Your inventory of cash represents the number of real Canadian cents you have earned during the session.

Market Structure

There are ten participants in this session. During one or two markets, all ten participants will be active. During the other one or two markets, four of the participants will receive such low redemption values that they will be “shut out” of the market. They will not be able to buy or sell coupons. They will continue to earn profits from their net sales revenues.

Even if you have been left out of the market you will need to follow the instructions on the screen at the beginning and end of each trading period. During the trading you may observe the trading activity or read a book.

Final Instructions

Do not speak with any other participant during the session.

If you have any questions, please raise your hand. The experimenter or a helper will speak with you privately.

End of Instructions