

INSTRUCTIONS - MARKET EXPERIMENT
(DOUBLE ORAL AUCTION)

You are about to participate in an economic experiment. The market structure used in this experiment is known as a “double-oral auction.” This means that both BUYERS and SELLERS orally communicate their desires to the market (the auctioneer at the front of the room) and this information is known to all participants. Because every market has two sides, the class will be divided into two groups, BUYERS and SELLERS. Individual BUYERS will attempt to buy an hour of labor from individual SELLERS. Everyone in the class will receive a card and a sheet that is marked BUYER or SELLER. The sheet contains information about your individual economic limits and desires. This is your **private information; do not share it** with anyone else or let anyone else see it. You will use the information on the card to make exchanges. Your profit is your own. As a BUYER or a SELLER you should try to make as much profit as possible. How you use the information on the card to make profit is explained below:

BUYERS

Each BUYER sheet contains the buyer’s values—that is, **maximum prices** that you are willing to pay, for the labor you are shopping for. This is your “willingness to pay” value. You will have at least two “willingness to pay” values. You might even have four. As a BUYER you will be making bids to buy units of labor. You can make a bid from \$0.00 up to the value listed on your sheet. (For example, if you are Buyer 10 and the first value on your sheet says \$5.00, you could bid \$3.50 by saying “Buyer 10 bids \$3.50.” But you could not bid \$5.25. Note that these numbers are just an example; check your own sheet for your own personal limits.) One way to understand these values is to think of yourself as a middleman. You know if you buy one unit of labor, you can sell it for the value listed. You know if you buy a second unit, you can only sell it for the value you have for the second unit. And so on. **If you buy a unit above your Value, you will lose money and would be better off not making that deal.** All buyers should have their highest value be their first unit. (Why is this?) BUYER profit is calculated as your value less the price you paid (your bid). Thus, to make the most profit, you need to negotiate transactions as far below your value as possible. After a seller accepts your bid or you accept a seller’s offer, you can record the price you paid and calculate your profit on your record sheet.

SELLERS

Each SELLER sheet contains the potential cost of each unit of labor you are willing to sell in the market. Your costs are the **minimum price** you are willing to accept in a market transaction. You will have at least two units of labor to sell and possibly four. As a SELLER you will be making offers to sell in the market. Offers to sell are called “Asks.” You can ask for any price above your costs. (For example, if you are seller 27 and the first cost on your sheet says \$4.00, you could ask for \$6.25 by saying “Seller 27 asks \$6.25.” But you could not ask for \$2.70. Note that these numbers are just an example; check your own sheet for your own personal minimum asking prices.) **If you sell a unit below your cost, you will lose money and would be better off not making that deal.** All sellers should have their lowest cost as their first unit. (Why is this?) SELLER profit is price you received less the cost on your sheet. Thus to make the most profit, you need to negotiate transactions as far above your cost as possible. After a buyer accepts your Ask or you accept a buyer’s bid, you can record the price you received and calculate your profit on your record sheet.

PARTICIPATING IN THE AUCTION

BUYERS will shout out their bids to buy and SELLERS will shout out their offers to sell. The only constraint is that the auctioneer (your instructor) has to be able to call on the buyer or seller so that everyone can hear the Bid or the Ask. (Pit style is something we can try another time!) Deals can be made in two ways. First, a Bid or an Ask match. In other words, a BUYER can accept a SELLER’S asking price or a SELLER can accept a BUYER’S bid price. Second, a Bid or an Ask can overwhelm an Ask or a Bid. The deal gets made at the pre-existing Bid or Ask. Each BUYER and SELLER can make only the number of deals in each trading period that they have values of costs for. When a deal gets made, all bids and asks are wiped clean and those that still want to buy or sell need to get back into the market with a bid or an ask. The last five deals made will appear at the bottom of the screen, so you will have time to write down the actual trading price on your record sheet. The “pit boss” may stop the trading at the end of each period with a “soft close,” which means that BUYERS will be asked if they will accept the last offer and SELLERS will be asked if they will accept the last bid. When no acceptances are forthcoming, the period will end.

Remember, your objective as an individual in this experiment is in maximizing your own economic position. This means making the most profit that you can on each deal. The BUYER and SELLER who perform the best throughout the experiment will be rewarded in an economic fashion!