

The Oral Double Auction: General Instructions

This is an experiment in the economics of market decision making. If you follow the simple instructions carefully and make good decisions, you might earn money which will be paid to you in cash.

In this experiment we are going to conduct a market in which some of you will be buyers and some of you will be sellers in a sequence of market days or trading periods. You will be given a card, labeled "Buyer" or "Seller", which describes the value to you of any decisions you might make. **YOU ARE NOT TO REVEAL THIS INFORMATION TO ANYONE.** It is your own private information. You are also assigned a specific letter of the alphabet which is your identification name to be used when participating in the auction.

The currency in these markets is dimes. At the end of the experiment, one person will be selected to be paid in cash that person's profits in one of the market periods. Which person is chosen will be determined randomly by drawing a card from a bag, and which period is selected will also be determined randomly by a coin toss.

Specific Instructions to Buyers

During each market period you are free to purchase from any seller or sellers up to five units. For the first unit that you buy during a trading period you will receive the amount listed on your card as the first unit reservation price or redemption value; if you buy a second unit, you will receive the additional amount listed as the second unit redemption value, and so on. The profits for each purchase are computed by taking the difference between the redemption value and the purchase price of the unit purchased. That is:

Your profit = Redemption value (or reservation price) - Purchase price

Suppose, for example, that you buy two units and that your redemption value for the first unit is 25 dimes and for the second unit is 20 dimes. If you pay 15 dimes for your first unit and 16 dimes for the second unit, your profit is:

Profit on first unit = $25 - 15 = 10$ dimes = \$1.00

Profit on second unit = $20 - 16 = 4$ dimes = \$.40

Total profit = $10 + 4 = 14$ dimes = \$1.40

Market Organization

The market for units is organized as follows. The trading period is open for twelve minutes (or five minutes for the practice round). Any person is free to bid to buy (ask to sell) when recognized by the auctioneer. The bid (ask) is tendered by giving the sequence: (1) identification letter, and (2) bid (ask) price per unit. The bid (ask) will be written on the chalkboard and will remain there until accepted, cancelled, or replaced by a higher bid (lower ask). Anyone is free to accept any part of a standing bid (ask). If a person accepts the bid (ask), a binding contract has been closed and both parties must record the transaction. No subject may buy or sell more than five units, but no subject is required to make any transactions.