

## 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 Sellers

During each market period you are free to sell to any buyer or buyers up to five units. You obtain the first unit that you sell during a trading period at the cost listed on the card as marginal cost of first unit; if you sell a second unit, you incur the cost listed as marginal cost of second unit, and so on. The profits from each sale are computed by taking the difference between the price at which you sold the unit and the cost of the unit. That is,

$$\text{Your profit} = \text{Sale price of unit} - \text{Cost of unit}$$

Suppose, for example, that you sell two units and that your cost of the first unit is 14 dimes and your cost for the second unit is 16 dimes. If you sell the first unit at 20 dimes and the second unit at 19 dimes, your profit is:

$$\text{Profit on first unit} = 20 - 14 = 6 \text{ dimes} = \$.60$$

$$\text{Profit on second unit} = 19 - 16 = 3 \text{ dimes} = \$.30$$

$$\text{Total profit} = 6 + 3 = 9 \text{ dimes} = \$.90$$

Note that you do not incur into any cost if you do not produce a unit.

### 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.