Experiment Instructions

Overview
You are about to participate in an experiment in the economics of decision making. If you follow these instructions carefully and make good decisions you will earn a considerable amount of money that will be paid to you in the form of an Amazon.com gift card that will be emailed to you within 2 business days after the session ends.

How to make money
You can make money by making good decisions in simulated auctions. You will be participating in auctions as a seller.

Details of the Game
You are a seller of a fictitious product. To make money you must sell that product in an auction. In each auction you will be selling your product to a different number of computerized buyers. To sell the product, you enter the minimum value that you are willing to sell this product for; this amount is your **Reservation Price.**

Before you enter your Reservation Price, you will know the number of computerized buyers that will be participating in your auction for each round. Each of these buyers will have a maximum willingness to pay for your product. The maximum willingness to pay is an integer from 0 to 100 (more details to follow).

In each auction bids ascend until all buyers reach their maximum willingness to pay. Therefore, throughout the auction some buyers will be forced to stop bidding. The auction ends when one buyer remains. The amount where each buyer stops bidding in the auction is called the **Drop-Out Price**.

The buyer with the highest drop-out price wins so long as that amount is equal to or above your Reservation Price. If all of the Drop-Out Prices are below your Reservation Price, then your product will not be sold and you will earn zero in that round. The profit calculation is as follows:

- **Your Profit = Second Highest Drop-Out price** *if the second highest Drop-Out Price is equal to or above your Reservation Price.*
- **Your Profit = Reservation Price** *if the highest Drop-Out Price is above the Reservation Price, but the second highest Drop-Out Price is below the Reservation Price.*
- **Your Profit = 0** *if all of the Drop-Out Prices are below the Reservation Price.*

During the auction you will always have one unit of a product that you are selling, regardless of whether or not you sold it in the previous round. You will participate in 60 consecutive auctions. For each round the number of buyers is randomly drawn as being 1, 4, 7, or 10, each number equally likely. The maximum amount a buyer is willing to pay is a whole number from 0 to 100 (see the table and graph at the end of these instructions for an example). Your product will be the same product each round.

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Examples
Example 1
Suppose you enter a Reservation Price of 60 and the second highest Drop-Out Price is 75, you earn a profit of 75 in this round.

Example 2
Suppose you enter a Reservation Price of 40 and the second highest Drop-Out price is 30, but the highest Drop-Out Price is 60, you earn a profit of 40 in this round.

Example 3
Suppose you enter a Reservation Price of 60 and the highest willingness to pay is 55, then none of the buyers have a Drop-Out Price equal to or higher than 60. Then no bids will be entered, and you earn a profit of 0 in this round.

The mechanics of entering a Reservation Price
To enter a Reservation Price, you enter your amount in the "Enter Your Reservation Price" box and then click on the Submit button. Once this is complete, the auction will proceed.

Information you will see at the end of each round
After each round you will be shown the results. The screen will show what the Drop-Out Prices were for each buyer or whether the buyer was unable to bid because his maximum willingness to pay was below the Reservation Price.

You will also see the following information:

- The Period, the Reservation Price, the Number of Buyers
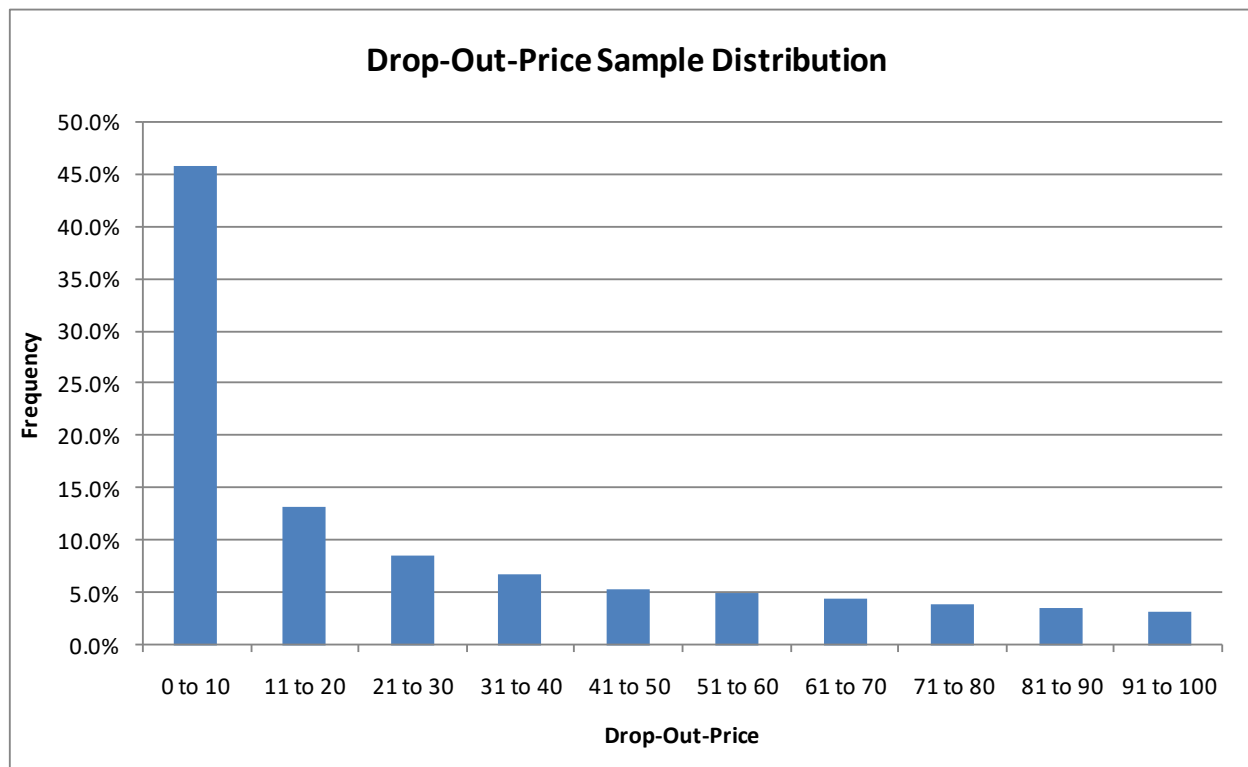- The Winning Bid, and Your Profit for the round

On the bottom of each screen you will also see this information for all previous rounds.

Bidding Distribution

As mentioned previously, Drop-Out Prices will be integers between 0 and 100. Here is a sample of 100 rounds:

4	32	0	16	67	47	0	12	0	0
1	5	39	0	21	81	5	0	7	1
2	1	1	7	3	4	1	84	8	58
2	0	62	2	1	0	68	20	92	8
5	0	4	0	16	43	1	50	2	0
43	7	39	7	6	0	23	25	14	12
71	0	17	44	15	15	3	0	84	54
1	91	11	60	1	36	91	30	3	0
1	1	0	15	0	57	3	9	93	5
10	2	18	71	0	12	79	64	19	10

Here is a column chart of 10,000 rounds of Drop-Out Prices:

Average: 25

Min: 0

Max: 100

How you will be paid
At the end of the session, the computer will calculate the total profit you earned in all rounds of the game and will convert it to US dollars at an exchange rate of 167 computer dollars to one US dollar. These dollar earnings will be added to your $5 participation fee and displayed on your computer screen. You will receive an Amazon.com gift card in this amount. The gift card will be emailed to you within 2 business days after the session ends.