

BUYER INSTRUCTIONS

For the purpose of the exercise assume that you are the representative of a regional chain of factories. You have been sent to a wholesaler of factory inputs to purchase iron, sulfur, and coal for your factories.

You purchase materials to make appliances in your factory that you eventually sell. Based on your cost and the sale price, it is possible for you to compute potential profits. Naturally, you are attempting to purchase these factory inputs as cheaply as possible so that your profits will be high when you resell them. Assume that there are nine possible offers on each material and that your profits for each price would be represented in the attached table. As you can see, on the left there are nine letters. Each letter represents a price at which you could purchase these three appliances. Price "A" is the cheapest price and price "I" is the most expensive. Since the lower your buying price the greater your profits, your profits will be greatest for price "A" and the smallest for price "I". The actual price is not important and can be referred to by the letter, but the profits (**your performance bonus**) are important and are listed in the table. Thus, if you could buy the iron at price "A" you would make \$0.60, if you could also buy the sulfur at price "A" you would make \$0.36, and if you also bought the coal for "A" you would make \$0.24, for a total profit of \$1.20, when you resold the items. On the other hand, if you were forced to buy the iron at price "I" you would make no profit at all. Assume that variations in prices are possible, that is, you don't have to buy the three materials at the same price.

You must come to an agreement on one letter for the iron, one letter for sulfur, and one letter for the coal.. But you don't have to have the same letter for each of them. You will be making offers for all three items at one time; it is like making a package deal.

The seller has a profit sheet like yours. They have the same nine options as you, but with different values attached to them. All that you can be certain of is that they will be attempting to sell the three materials at as high a price (closest to 'I') as possible.

You are free to exchange any information during this bargaining. Although you are not allowed to exchange profit sheets, you can exchange information from the sheets. This information need not be truthful. Naturally, your company wants to make as much profit as possible.

BUYER

<u>Iron</u>		<u>Sulfur</u>		<u>Coal</u>	
A	\$0.60	A	\$0.36	A	\$0.24
B	\$0.52	B	\$0.31	B	\$0.21
C	\$0.45	C	\$0.27	C	\$0.18
D	\$0.37	D	\$0.23	D	\$0.15
E	\$0.30	E	\$0.18	E	\$0.12
F	\$0.23	F	\$0.13	F	\$0.09
G	\$0.15	G	\$0.09	G	\$0.06
H	\$0.08	H	\$0.05	H	\$0.03
I	\$0.00	I	\$0.00	I	\$0.00