

INSTRUCTIONS –PED–

Welcome! You are participating in an economics experiment. In this experiment you will play the role of a trader, who can hold two types of goods. If you read these instructions carefully and make appropriate decisions, you may earn between \$6 and \$25, depending on your decisions. You will be immediately paid out in cash at the end of the experiment.

Please turn off all cell phones and other communication devices. During the experiment you are not allowed to communicate with other participants. If you have any questions, the experimenter will be glad to answer them privately. If you do not comply with these instructions, you will be excluded from the experiment and deprived of all payments aside from the minimum payment of \$6 for attending. This experiment will have 9 practice rounds and 50 playing rounds.

THE EXPERIMENT

In this game, you will play the role of a producer (stage I) and a trader (stage II).

Stage I: Each player is faced with a production decision: how many Rues (R) and Sennas (S) to produce. Your decision screen will show a *trade-off in production*, which displays all possible combinations of the two goods that you can produce.

Please refer to the screenshot of the game: The quantity of R is on the horizontal axis, while the quantity of S is on the vertical axis.

- If you would like to produce more R, then you have to forgo producing some S. At this point, increasing production of R by one more means giving up more than one S.
- If you would like to produce more S, then you have to forgo producing some R. If you choose to increase S by one, then you have to forgo more than one R.

The trade-off between producing R and S is always changing. If you keep increasing the production of one good, you must give up more and more of another good.

Stage II: After you decide how many R and S to produce, you will find out which of the two goods is profitable for you. This means that *you will earn points from only one type of good* in any given round.

Since only one good is profitable for you, you will trade away the good that is not profitable. In this stage, you will be matched with another trader, who has preferences that are the opposite of yours. That is, if Rue is profitable to you, you will be randomly matched with another trader for whom Senna is profitable and you will exchange the goods that you each want to trade away.

If Sennas are profitable:

$$\text{Points} = \text{Number of Sennas you have} + \text{Number of Sennas you buy}$$

The number of Sennas you buy depends on how much Sennas the trader you are matched with holds. You will trade all your Rues for all of their Sennas.

If Rues are profitable:

$$\text{Points} = \text{Number of Rues you have} + \text{Number of Rues you buy}$$

The number of Rues you buy depends on how much Rues the trader you are matched with holds. You will trade all of your Sennas for all of their Rues.

Interface

The graphical interface is similar to what you will see during the game. You only have to hover your mouse over the line to see the different values of (R, S) and then click to make your choice. When selecting your production, you will have to click on the desired output level and then confirm your choice.

Trading

For a trade to occur, you do not need to enter the amount of Rues or Sennas that you would like to trade. Trade will occur automatically once you are matched with another trader and will be based on how much of the nonprofitable good each of you hold. In essence, you each trade away the nonprofitable good in the 2 person submarket.

The points for the good you profit from will be highlighted in blue on your screen. For example, if it turns out that you profit from Rues, you will see your points for Rues in blue.

Information available to you:

- **T:** period
- **Points:** Earnings given production choice and profitability shock
- **Increase 1R:** Change in points from increasing production by 1R according to shock
 - If you profit from R
 - If you profit from S
- **Production:** Your choice of production of R and S
- **Other Trader:** Production choice of the trader that you are matched with in that round

Increase IR describes how much better (or worse) off you would be if you increase production of Rues by one unit.

If you profit from R, your change in profit = +1 , where 1 is from producing the additional R,
If you profit from S, your change in profit = - c or how much you gave up to produce the additional R.

Your payment

The points you earn from all rounds will be added up, exchanged into dollars and paid to you, along with your show up fee, in cash at the end of the experiment. The exchange rate of points to cash is written on the board.

Practice Rounds

The first 9 rounds will be for practice only. The choice of the other traders will be selected randomly and will stay the same for three periods. Please note that this will not be the case in the actual game, where you are matched with another trader in the room. The practice rounds are meant to show you how your production choice affects your payoff.

Frequently Asked questions

Q: Do I know which good will be profitable before I choose how many R and S to produce?

A: No, you will know what type of good you get points from (like) after you make a decision.

Q: Why is the shape of the production possibilities curved? A: Because the cost of production is different at each point. It is always changing, which is shown by the changing slope.

Q: How do I trade? A: You will be randomly matched with a trader who experienced a different profitability shock. That is, if you find out that you profit from R, you will be randomly matched with a player who profits from S. Then you can exchange the goods that do not bring you any profit, for the goods that will make you better off. In this case, you will trade your S for the other player's R. Your final points are then dependent on the amount of R and S amongst the two of you.