

INSTRUCTIONS

Double-Oral Auction Market Experiment*

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*These instructions are adapted from a set of instructions that was handed out at a Seminar on Laboratory Experiments for Undergraduate Instruction in Economics at the University of Arizona from July 31-August 4, 1989.

You are about to participate in an economic experiment on how the prices and quantities of a good exchanged in a competitive market structure are determined. The market structure used in this experiment is known as a "double-oral auction." This means that both buyers and sellers orally communicate their desires to the market and this information is known to all market participants. Because every market has two sides, the class will be divided into two groups, BUYERS and SELLERS. Individual BUYERS will attempt to buy an unknown good from individual SELLERS. Everyone will receive a card that is marked BUYER or SELLER. BUYERS will have large blue cards (4 by 6 inch), while SELLERS will have small yellow cards (3 by 5 inch). The card also contains information about how much you value the good being exchanged. This is your private information, do not share it with anyone else. You will use the information on the card to make profitable exchanges. As a BUYER or a SELLER you should try to make as much profit as possible. How you use the information on the card to make profit is explained below:

BUYERS

Each BUYER card contains a number that is the maximum price that you are willing to pay for the good being exchanged. This is your "willingness to pay" value. Enter this value in the appropriate column of your Record Sheet. As a BUYER you will be making bids to buy in the market. You can make any bid from \$0.00 up to the price listed on your card. For example, if your card says \$5.00 you could bid \$3.48 but could not bid \$5.12 (these numbers are used as an example only; check your card for your own personal limit). BUYER profit is calculated as the difference between your "willingness to pay" and the actual price at which you make a transaction. Thus, to make the most profit, you need to make transactions as far below your maximum price as possible. After you make a transaction, record the price you paid and calculate your profit on the Record Sheet.

SELLERS

Each SELLER card contains a number that is your "cost to produce" the good you are selling in the market. Thus, this is the minimum price you are willing to accept in a market transaction. Enter this value in the appropriate column of your Record Sheet. As a SELLER you will be making offers to sell in the market. You can offer for any price above the price listed on your card. For example, if your card says \$4.00 you could offer \$6.19 but could not offer \$2.39 (these numbers are used as an example only; check your card for your own personal minimum). SELLER profit is calculated as the difference between the actual price you receive from a

transaction and your "cost to produce." To make the most profit, you need to make transactions as far above your cost of production as possible. After you make a transaction, record the price you receive and calculate your profit on the Record Sheet.

MAKING TRANSACTIONS

In a double-oral auction, BUYERS and SELLERS simultaneously make their wishes known to the other market participants. BUYERS will shout out their bids to buy and SELLERS shout out their offers to sell. Each trading period will last for three minutes. When a BUYER and a SELLER have agreed on a price, they should proceed to the black board and have the instructor record the transaction. They should then stand aside and await the start of the next trading period.

Remember, as an individual market participant you are interested in making the most profit that you can on each transaction. Also remember that a little profit is better than no profit!).

The participant who performs the best throughout the experiment will receive a copy of a significant book in economics or business.

GOOD LUCK!

Market Summary Statistics

	Trading Period				
	1	2	3	4	5
1. Highest Price Paid					
2. Lowest Price Paid					
3. Mean Price ("Market Price")					
4. Market Quantity					

[This sheet is for you to record information about the experiment, if you want to. I do not want this sheet turned in.]

NAME _____

Record Sheet

	Trading Period				
	1	2	3	4	5
1. Buyer (B) or seller (S)?					
2. Your transaction price.					
3. The price on your card.					
4. Your profit*.					

*For SELLERS the profit is the price in the second row minus the price in the third row. For BUYERS the profit is the price in the third row minus the price in the second row.

[At the end of the experiment, you will need to put your name at the top of this sheet, tear it out, and hand it in to the instructor. You need to hand this sheet in, even if you know you are not going to be one of the winners.]