

Instructions

- **Rounds:** The experiment consists of a sequence of market trading periods or "rounds".
- **Roles:** Each person will either be a **buyer** or a **seller** in all rounds of this part of the experiment. Buyers submit prices to buy units of a commodity to be described below, and sellers submit price offers to sell such units. We will refer to buyers' submissions as "*bid prices*" and to sellers' offers as "*ask prices*". Your role in this part is that of a (seller or buyer).
- **Earnings:** In a given period, each seller will have up to 3 units of a commodity to sell, and they will be told the **monetary cost** of producing each of these units. Sellers may earn money by selling at a price that is above the cost of a unit. Similarly, each buyer will have up to 3 units of a commodity to buy, and they will be told the **monetary value** of each of these units. Buyers may earn money by buying at a price that is below the value of the unit.

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- **Your Role: Seller.** For each unit that you sell, you will earn the difference between the selling price of the unit and your cost for that unit. So high prices and low costs are good for sellers like you. The costs for your 3 units will be given to you, and the determination of price is explained next.
- **Or: your Role: Buyer.** For each unit that you purchase, you will earn the difference between your monetary value of the unit and the purchase price. So high money values and low prices are good for buyers like you. The money values for your 3 units will be given to you, and the determination of price is explained next.
- **Bid and Ask Prices:** When the market opens, any buyer may submit a bid price at which he or she is willing to purchase a unit. Similarly, any seller may submit an offer (or "ask") price at which he or she is willing to sell a unit.
- **Transactions:** A transaction is finalized when a buyer accepts a seller's offer, or when a seller accepts a buyer's bid.

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- **Bid-Ask Spread:** At all times the program will display the highest outstanding bid to buy and the lowest outstanding offer to sell. The lowest offer will be above the highest bid, and the difference will be called the "bid-ask spread".
- **Bid and Ask Revisions:** A new bid from a buyer need not be above the buyer's own outstanding bid (if any) for that unit. Similarly, a new ask from a seller need not be below the seller's own outstanding offer (if any) for a particular unit. The option to adjust one's own bid or ask in either direction permits one to correct an error or essentially withdraw a bid (by lowering it) or withdraw an ask (by raising it).
- **Making a Purchase or Sale:** A buyer can make a purchase by offering to pay a seller's price, i.e. by entering a bid that is at or above a seller's ask price. Similarly, a seller can make a sale by entering an offer that is at or below a buyer's bid price.
- **Resubmission of Bids or Offers:** A transaction automatically cancels all prior bids and offers made by the buyer and seller involved, although they are free to enter new bids and offers if they have additional units to buy or sell. Bids and offers made by those who are not involved in the transaction do not have to be reentered; they remain in the queue.

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- **Example 1:** Suppose buyer 1 makes a bid of 1 and seller 3 makes an offer of 3. The next message could be **either** a new bid (from buyer 1 or from another buyer) **or** a new offer (from seller 3 or from another seller). Suppose that buyer 2 first bids 1.5 and then raises that to 2, and seller 4 accepts by making an offer at 2. Then both of buyer 2's bids would be removed, and the highest available bid would be buyer 1's original bid of 1. Seller 3's offer of 3 would still stand and would represent the lowest offer at that point.
- **Example 1 (continued):** When seller 4 sells to buyer 2 at a price of 2, each of them will earn money. If buyer 2's value for the unit were 6, then the buyer would earn $6 - 2 = 4$. Similarly, if seller 4's cost were 1, then the seller would earn $2 - 1 = 1$ on the sale. The buyer would not have been permitted to pay more than 6 for the unit with a value of 6, and the seller would not have been permitted to sell at a price below the cost of 1.
- **Subsequent Units:** If seller 4 were to have a second unit with a cost of 2, the seller's next offer would have to be at least 2. In contrast, seller 1 who did not yet sell the unit with a cost of 1 would be able to submit any offer that is greater than 1. So you see that some sellers may be trying to sell their first units at the same time that others are trying to sell their second units. Similarly, a buyer who makes a purchase and who has an additional unit value will be required to bid below the value of that second unit.

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Page 5 - On this page I will first read the instructions for buyers, and sellers can listen, and then I will read the instructions for sellers, and buyers can listen.

- **(Buyer) Values:** In this market, you are a buyer with 3 units that can be bought. The values for these units are shown in the table below (on your screen if you are a buyer). For example, the first unit has a value of \$*.*.
- **(Buyer) Earnings:** Thus the first unit that you buy will yield money earnings of \$*.* - **price paid**. Of course, if a unit is not purchased, no price is paid but no value is obtained.
- **(Seller) Costs:** In this market, you are a seller with 3 units that can be sold. The costs for these units are shown in the table below (on your screen if you are a seller). For example, the first unit has a cost of \$*.*.
- **(Seller) Earnings:** Thus first unit that you sell will yield money earnings of **sale price** - \$*.*. Of course, if a unit is not sold, no price is received, but no cost is incurred.

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- **Earnings:** Suppose that you made a price (bid or ask) of \$*.* on the first unit, and that this price (bid or ask) was accepted. Then the number in the price column would be the same as the number in the bid/ask column, and the associated earnings would be calculated as shown in the right-hand earnings column below. Earnings are listed as \$0.00 on all unpurchased units.
- **(Bid or Ask) Prices:** You enter your (bid or ask) price in the **bid/ask** column (try typing in a number, with a decimal to distinguish dollars and cents). (Bid or Ask) prices may differ for each unit, but must not be above the value for that unit. You must (purchase/sell) your first unit before your second, etc., so you will see a submit box in the **bid/ask** column for the next available unit (unit 2 in this example).

	value	bid/ask	price	earnings
unit 1	\$	\$*.*	\$*.*	\$*.*
unit 2	\$	<input type="text"/>		\$0.00
unit 2	\$			\$0.00
unit 3	\$			\$0.00

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Please look at whether or not your answers were correct (and why), and then go on to page 8.

Question 1: Suppose that the market period begins with buyer 1, who bids \$1.00 on the buyer's first unit. Which is correct?

- ☒ (a) The next submission must be a bid above \$1.00.
 - ☐ (b) The next submission may come from any buyer (including buyer 1) or from any seller, or it may consist of a seller accepting the buyer's bid.
- Your answer, (a) is **Incorrect**. The next submission need not be a bid, it can also consist of a seller offer or an acceptance.

Question 2: Suppose that the first buyer bids \$7.00 and a seller decides to accept by entering an ask of \$7.00. Before this seller can enter the ask, however, a second buyer bids \$7.50. The seller, not knowing this, enters the ask of \$7.00, after the bid of \$7.50 is confirmed. The seller, of course, would be willing to sell at this higher bid price. What will the unit sell for?

- ☐ (a) \$7.50
- ☒ (b) \$7.00

Your answer, (b) is **Incorrect**. A seller who accepts a bid will receive the best (highest) bid price at the time the seller's acceptance is received. Similarly, a buyer who accepts an offer will receive the best (lowest) available ask price at the time the buyer's acceptance is received.

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Instructions Summary, ID = 0,

- **Values and Costs:** All values have been determined randomly, and may differ from buyer to buyer. Similarly, all costs have been determined randomly and may differ from seller to seller. There may be several trading "periods".
- **Bids and Asks:** Buyers may submit bids or accept the lowest available ask price. Sellers may submit asks or accept the highest available bid. A bid must be no higher than the buyer's value. An ask must be no lower than the seller's cost.
- **Resubmissions:** A trade between a buyer and a seller results in the cancellation of all prior bids for that buyer and of all prior asks for that seller. Others' bids and asks still stand and do not need to be resubmitted.
- **Earnings:** Buyers earn money by buying at prices that are below unit values, and sellers earn money by selling units at prices that are above costs. Final earnings for a period are the sum of earnings for all units transacted; earnings are zero for untraded units.
- **Periods:** Each trading period will last minutes, at which time total earnings for that period are calculated and a new period begins. The experimenter will keep track of the time and make announcements (or send messages) about remaining time.

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