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- **Rounds and Matchings:** The experiment sets up markets that are open for a number of **rounds**. **Note:** You will be the **only seller** in the market for all rounds.
- **Interdependence:** The decisions that you and the other person make will determine your earnings.
- **Output Decisions:** You will begin by choosing a production **quantity**.
- **Sale Price:** The price at which your production quantity can be sold in each round depends on your production for that round. Price will also be affected by random elements.

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- **Production Cost:** Your production decision must be between (and including) 0.00 and 13.00, and the cost associated with this production will be \$1.00 for each unit produced. So your total cost is calculated by multiplying production quantity and \$1.00.
- **Price:** All units produced will be sold for the same price, which depends on the total amount that you produce and on a random shock. The more that is produced, the lower the price tends to be, although price is subjected to a random shock in each round. Price will be positive, unless your production is high enough to drive price down to zero.
- **Sales Revenue:** Your total revenue is calculated by multiplying your production quantity and the price. Since you do not know the price in advance, you will not know what your total revenue from sales will be.

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- **Earnings:** Your profit is the difference between your total revenue and your production cost. If Q is the quantity you produce, then total revenue is $(Q \times \text{price})$, total cost is $(Q \times 1.00)$, so earnings = $Q \times (\text{price}) - (Q \times \$1.00)$. Obviously, earnings can be positive if price is above cost and negative if price is below cost.
- **Cumulative Earnings:** The program will keep track of your total (cumulative) earnings. Positive earnings in a round will be added, and negative earnings will be subtracted.

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Question 1: Suppose that your production is 2 units, the cost of each unit is \$1.00, and the price is \$2.00. Then your earnings will be:

- (a) \$1.00
- (b) \$2.00

Your answer, (b) is **Correct**. The price-cost margin is \$1.00, so you earn \$1.00 on **each** of the two units produced, for a total of \$2.00.

Question 2: If you increase your production quantity, then

- (a) your revenue goes up.
- (b) price tends to go down.

Your answer, (b) is **Correct**. The higher production tends to cause a fall in price, so revenue may either rise or fall.

Instructions Summary (ID =)

- **Earnings:** You begin a round by choosing a number or "production quantity" between and including **0.00** and **13.00**. Your total cost is \$1.00 times your quantity, and your total revenue from sales is the market price times your quantity. Your earnings equal total revenue minus your total cost. Positive earnings are added to your cumulative earnings, and losses are subtracted.
- **Price:** The price depends on the quantity that you produce. You will not know price in advance, but you do know that an increase in total production will generally decrease price. The final price is also affected by a random "shock".

Begin Part 2: Some payoff parameters have changed.

- **Group Size:** has increased from 1 to **2 people** per group.
- **Price Determination:** In this part, the price will depend on your quantity, and on a random shock.
- **Unit Cost:** will remain unchanged at **\$1.00** per quantity unit.
- **Fixed Cost:** will remain unchanged at **\$0.00** per round.
- **Range of Feasible Quantity Choices:** will remain unchanged: **[0, 13]**.
- **Sales Price:** The relationship between the market price and the total production quantity of the sellers in your group has **not** changed.
- **Price Shock:** Besides depending on production quantities, the price will continue to be affected by a random shock.
- **Matching Method:** The groups of 2 people will remain the same for all rounds in this part.

*your quantity in the second part means the total quantity of the 2 people in the group now.