

## Market Experiment Instructions

When time permits (at the end of chapters), we will conduct some experiments in class on the behavior of markets. Read these instructions carefully and ask for clarification if needed. We will begin with the market for gasoline. In each experiment, students will be randomly divided into a group of buyers and a group of sellers.

- ▶ Buyers will receive a card indicating a reservation price – the maximum price willing to pay for a gallon of gas. Keep the reservation price private. Each buyer seeks to buy 10 gallons of gas.
- ▶ Sellers will also receive a card indicating a reservation price – the minimum price willing to accept for a gallon of gas. Keep the reservation price private. Each seller seeks to sell 10 gallons of gas.
- ▶ Gasoline is exchanged in 10 gallon increments. Each round, buyers call out offers to buy at a proposed price and sellers call out offers to sell at a proposed price. When an offer is accepted, an exchange of 10 gallons is made. Upon completing an exchange, the buyer and seller should record the price paid on their own cards (with the round number). Buyers and sellers who have completed exchanges drop out of the market until the next round. Each round will last until all profitable exchanges appear to be completed, approximately 5 minutes. I will make a final call for bids/offers before closing that round of the market. There will be as many rounds as time permits. Due to variation in reservation prices, some buyers and sellers may be unable to make contracts in some or all trading periods.
- ▶ Buyers earn the amount that their reservation price exceeds the contract price times 10. Buyers should be careful not to buy at any price above their reservation price – buyers benefit from buying at as low a price as possible. Sellers earn the amount that the contract price exceeds their reservation price times 10. Sellers should be careful not to sell at any price below their reservation price – sellers benefit from selling at as high a price as possible. A buyer's or seller's total gains will then determine their extra credit score.