

V. L. Smith (1962), An experimental study of competitive market behavior, Journal of Political Economy

Instructions to V. L. Smith (1964) "Effect of Market Organization on Competitive Equilibrium", The Quarterly Journal of Economics.

INSTRUCTIONS FOR MARKET EXPERIMENT

1. This is an experiment in the economics of market decision-making. The National Science Foundation has provided funds for the conduct of this research. The instructions are simple, and if you follow them carefully and make good decisions you may earn a considerable amount of money which will be paid to you in cash at the end of the experiment.

2. In this experiment we are going to simulate a market in which some of you will be buyers and some of you will be sellers in a sequence of trading periods or market days. Two kinds of cards will now be passed out - a set of white cards and a set of yellow cards. Those of you who receive a white card will be sellers, and only sellers. Those of you who receive a yellow card are buyers, and only buyers. These cards have an identification number, which you are to ignore, on the side facing up. On the side facing down appears a figure or price in dollars and cents. You are not to reveal this price to anyone. It is your own private information.

3. If you have received a white card you are a seller of at most one unit of the fictitious commodity being sold in each trading period. The price on the underside of your white card is the lowest price at which you are to sell your unit of this commodity in any trading period. If you have received a yellow card, you are a buyer of at most one unit of the commodity being sold in each trading period. The price on your yellow card is the maximum price at which you are to buy a unit of this commodity per trading period.

4. The payoffs are as follows: If you are a seller, and you were able to make a sale, you will receive 5 cents for having made a sale plus the difference between the price at which you sold and the price on your white card. Think of the price on your white card as your cost of production. Your profits depend directly upon your ability to sell above this cost, but you should be prepared to sell at this cost, and receive your 5 cent commission, if you can do no better. If you are a buyer, and make a purchase, you will receive a 5 cent commission plus the difference between the price on your card and the price at which you bought. Think of the price on your yellow card as the price you can get by reselling the unit in an entirely separate market, while the price at which you buy in this market is your cost. Your profits depend directly upon your ability to buy at a cost below the price on your card, but you should be prepared to buy at that price, and collect your 5 cents, if you cannot do better. The payoffs for each subject will be accumulated over several trading periods, and the total amount paid in cash at the very end of the experiment. You are not to reveal your profits to anyone until the experiment is completed. There is no penalty except the profits you lose from failing to make a contract.

5. The market for this commodity is organized as follows: We open the market for a trading day. Any seller is free at any time to raise his hand and make a verbal offer to sell at any price which is not below the price on his white card. Any buyer is free to accept the offer of any seller but no buyer is to buy at a price above the price on his yellow card. As soon as an offer is accepted, a binding contract has been closed and the buyer and seller making the deal are to drop out of the market, making no more offers or contracts for the remainder of that trading period. This process continues for a period of several minutes, depending upon the volume of trading. You will be warned when the market is to close and a few more offers will be called for before actually closing. This completes a trading "day." We will then reopen the market for a new trading period, and so on, for a sequence of several periods.

6S. Some of you may be unable to make a purchase or sale in any trading period. Some of you will be able to make a purchase or sale in some trading periods, but not in others. There are likely to be many offers that are not accepted. You are to keep trying and you are to feel free to earn as much cash as you can. Except for the offers you are not to speak to any other subject until the experiment is completed.

5SB. The market for this commodity is organized as follows: We open the market for a trading day. Any buyer is then free at any time to raise his hand and make a verbal bid to buy at any price which does not exceed the price on his yellow card. Likewise, any seller is free at any time to raise his hand and make a verbal offer to sell at any price which is not below the price on his white card. Any seller is free to accept the bid of any buyer, and any buyer is free to accept the offer of any seller. As soon as a bid or offer is accepted, a binding contract has been closed and the buyer and seller making the deal are to drop out of the market, making no more bids, offers, or contracts for the remainder of that trading period. This process continues for a period of several minutes, depending upon the volume of trading. You will be warned when the market is to close and a few more bids and offers will be called for before actually closing. This completes a trading "day." We will then reopen the market for a new trading period, and so on, for a sequence of several periods.

6SB. Some of you may be unable to make a purchase or sale in any trading period. Some of you will be able to make a purchase or sale in some trading periods, but not in others. There are likely to be many bids and offers that are not accepted. You are to keep try-ing and you are to feel free to earn as much cash as you can. Except for the bids and offers you are not to speak to any other subject until the experiment is completed.

5B. The market for this commodity is organized as follows: We open the market for a trading day. Any buyer is free at any time to raise his hand and make a verbal bid to buy at any price which does not exceed the price on his yellow card. Any seller is free to accept the bid of any buyer but no seller is to sell at a price below the price on his white card. As soon as a bid is accepted, a binding contract has been closed and the buyer and seller making the deal are to drop out of the market, making no more bids or contracts for the remainder of that trading period. This process continues for a period of several minutes, depending upon the volume of trading. You will be warned when the market is to close and a few more bids will be called for before actually closing. This completes a trading "day." We will then reopen the market for a new trading period, and so on, for a sequence of several periods.

6B. Some of you may be unable to make a purchase or sale in any trading period. Some of you will be able to make a purchase or sale in some trading periods, but not in others. There are likely to be many bids that are not accepted. You are to keep trying and you are to feel free to earn as much cash as you can. Except for the bids you are not to speak to any other subject until the experiment is completed.

7. Are there any questions?