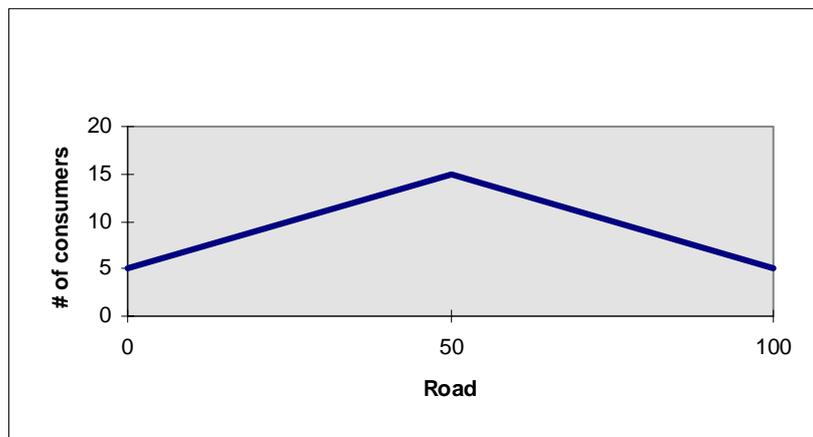


EXPERIMENT INSTRUCTIONS

INSTRUCTIONS - FULL LOCATION

This is an experiment in economic decision making. If you make good decisions, you could make a considerable amount of money that will be paid to you in cash at the end of the session.

In this experiment, you are one of two sellers of a fictitious product in a market. Throughout this experiment you will be paired with the same seller. You both will have the opportunity to sell your product to a group of 1000 simulated customers. These customers are located at individual points along a road (see below and graph on the board).



You and the other seller will each be asked to choose a location on this road. Depending on the location of your firm, some customers will be closer to your store while others will be closer to the other seller's store. When deciding which seller to purchase from, a customer will consider the price which is \$0.53, and the cost of transporting the product home from the store. The cost of transportation to the consumer will be \$0.10 per mile for each unit they purchase. Your overhead cost each period is \$100.00 and your per unit cost of production is \$0.50.

As you probably have noticed, there are more than two people in the laboratory, there are several pairs of sellers. Each pair of sellers serves a different set of customers, a different market. You and the other seller in your market will choose a location each period. Either you may choose a different location the next period, or may repeat a previous location choice.

There will be several business periods in this experiment. At the beginning of each

period, you and the other seller in your market will be asked to state a location choice. In this experiment you may only choose locations of 0 to 100 on the road. (For example, 6, 15, 27, 60, 86,...). If you choose a location other than one of these, your location will be rounded to the nearest whole number to calculate your quantity of sales and profit. You will be asked to enter your chosen location for that period and then to keep pressing the return key until you have a blinking cursor in the middle of your screen. (Note: If the cursor is "stuck" in the lower left-hand corner of your screen, please be patient, it means that the computer is waiting for everyone to make their location decision.) Then, the buyers choose which seller to purchase from and how much of the good they desire, based on both sellers' locations, the product's price and the transportation cost. After the customers are finished buying, the number of units you sold is recorded as well as your profit for that period.

There will be practice rounds in which you can try different combinations of location choices and become acquainted with how the real market will work. In the upper right-hand corner of your screen is a small box that indicates what type of round you are in - REAL or PRACTICE. In the practice rounds you will be asked to put in two locations. However, in the real rounds you will be asked to enter only one (your own) location choice, and the other seller in your market enters in his or her own location choice that is revealed to you only after both of your choices are received by the computer. At the end of each round there will be a draw of a bingo ball to determine if the experiment will continue for another real round. This will be explained in more detail after you finish with this set of instructions.

{The next paragraph is excluded from the No Communication Treatment}

At the beginning of each period you will have the opportunity to communicate with the other seller in your market. You may say anything you like concerning your location decisions (as long as it is printable) and it will be delivered to the appropriate seller. You will have about 1 minute from the beginning of the period to communicate your messages. This process will be

repeated until the end of the experiment.

If you have any questions, hold up your hand and the monitor will answer them if possible. Validity of the experimental procedure requires that you do not TALK with other subjects. If you do try to talk with another subject, you will be paid your show-up fee and excused from the experiment.

At the end of the experiment you will be paid your accumulated earnings in cash when the experimenter calls your name. Please be patient.

When you are satisfied that you understand these instructions and are ready to begin the experiment, turn your instruction sheet over.

INSTRUCTIONS-2 x 2 Framework

This is an experiment in economic decision making. If you make good decisions, you could make a considerable amount of money that will be paid to you in cash at the end of the session.

In this experiment you are one of two sellers of a fictitious product in a market. As you probably have noticed, there are more than two people in the laboratory - there are several pairs of sellers. You will be randomly paired with the same seller for the duration of the experiment.

There will be several periods in this experiment. At the beginning of each period, you and the other seller in your market will be asked to state your choice based on the information below. You will be asked to write your choice on the record sheet for that period and turn the sheet over once you are done. A monitor will collect the sheet from everyone. Within each period you will be asked to enter only one choice (your own), and the other seller in your market enters in his or her own choice, which is revealed to you along with your period earnings only after all choices are recorded by the monitor. At the end of each round there will be a draw of a bingo ball to determine if the experiment will continue for another period. This will be explained in more detail after you finish with this set of instructions.

The table below lists the two choices available to you. The other seller also has two choices (shown in the second column). The third and fourth columns show respective payoffs you and the other seller receive for the possible combination of choices.

<u>YOUR CHOICE</u>	<u>OTHER SELLER'S CHOICE</u>	<u>YOUR PAYOFF</u>	<u>OTHER SELLER'S PAYOFF</u>
MIDDLE	MIDDLE	\$0.75	\$0.75
MIDDLE	LEFT	\$2.28	-\$0.08
RIGHT	MIDDLE	-\$0.08	\$2.28
RIGHT	LEFT	\$1.30	\$1.30

The figure below, known as a payoff matrix, also represents the situation you face. The first number in each cell is your payoff, the second number is the other seller's payoff, which depends on the choice you make and the choice the other seller makes.

	MIDDLE	LEFT
MIDDLE	0.75, 0.75	2.28, -0.08
RIGHT	-0.08, 2.28	1.30, 1.30

Feel free to use either representation of the available choices. Whichever is easiest for you to work with.

If you have any questions, hold up your hand and the monitor will answer them if possible. Validity of the experimental procedure requires that you do not TALK with other subjects. If you do try to talk with another subject, you will be paid your show-up fee and excused from the experiment.

At the end of the experiment you will be paid your accumulated earnings in cash when the experimenter calls your name. Please be patient.

When you are satisfied that you understand these instructions and are ready to begin the experiment, turn your instructions over.