

Appendix B

INSTRUCTIONS

Introduction

This is an experiment on the economics of market decision making. The following instructions are simple, and if you follow them carefully and make good decisions, you may earn a considerable amount of money.

During the experiment your payoff will be in experimental dollars that will be converted into dollars at the end of the experiment at the following rate:

$$2 \text{ Experimental Dollars} = 1 \text{ US Dollar}$$

Payments will be made privately at the end of the experiment.

Your Experimental Task

As you arrive in the lab, you will be randomly divided into markets consisting of 4 people each. Your role in this market is as a bidder to bid for a fictitious commodity.

At the beginning of the experiment, you will receive a sheet of paper on which you will see a list of 10 numbers. Each number is between 0 and 100 Experimental Dollars (randomly drawn with equal probability) and has been rounded to the nearest cent. Each number represents a possible valuation that you may have for the fictitious commodity. The process of selecting possible

valuations is exactly the same for everyone. So, each member of your market will have a different list of 10 numbers; each is drawn randomly and independent of yours.

For each of your 10 possible valuations, you should write down a bid in the space provided on the sheet of paper. After all of the participants have chosen their bids for each of the 10 possible values, the lists will be collected.

At this point we will determine each player's actual value. The process is as follows. The experimenter has 10 cards numbered from 1 to 10. At the end of the experiment, one of you will randomly select one of these cards, and the number selected will determine each subject's valuation. For example, if the number 4 is selected, it means that your true valuation is given by the fourth number that was on your list, and the bid is the corresponding fourth number that you wrote. Hence, you should enter each bid as if that value is going to be your true value.

We are now ready to determine the winner and the payoffs. The person in each market with the highest bid wins the fictitious good and pays the exact amount of his or her bid. In the case of a tie, the winner will be determined randomly by rolling a dice. If you are the highest bidder, you will earn the difference between your true value and your bid. If you are not the highest bidder, you will not earn any money. Hence, your earnings can be described as follows:

Earnings = your true value - your bid

(if you are the highest bidder or win the draw in case of a tie)

Earnings = 0

(if you are the low bidder or lose the draw in case of a tie)

Are there any questions?

Information Structures

1. *The following is given only to the participants in the loser regret condition:*

After the lists have been collected and a winner determined, you will learn whether you are the winner or not, and also **you will learn the HIGHEST BID**. Any other information regarding the bids of the other bidders will not be given.

Now, please write your bids for each possible valuation.

2. *The following is given only to the participants in the winner regret condition:*

After the lists have been collected and a winner determined, if you are the winner, you will learn that you won, and also **you will learn the SECOND HIGHEST BID**;

if you are not the winner, you will only learn that you did not win. You will not learn any additional information.

Now, please write your bids for each possible valuation.

3. *The following is given only to the participants in the no regret condition:*

After the lists have been collected and a winner determined, **you will only learn whether you are the winner or not**. You will not learn any additional information.

Now, please write your bids for each possible valuation.

An Example of Bidding List:

	<i>Possible Valuations</i>	<i>Your Bids</i>
1	98.38	
2	48.07	
3	94.37	
4	61.86	
5	61.23	
6	11.55	
7	45.28	
8	77.54	
9	88.43	
10	22.16	

Survey

1. *Loser regret condition:*

Suppose at the end you are not the winner, and you learn the highest bid. Please rate the intensity of the emotions listed below you anticipate experiencing in that situation:

2. *Winner regret condition:*

Suppose at the end you are the winner, and you learn the second highest bid. Please rate the intensity of the emotions listed below you anticipate experiencing in that situation:

3. *No feedback condition:*

a. *Winning:*

Suppose at the end you are the winner, and you did not learn any additional information.

Please rate the intensity of the emotions listed below you anticipate experiencing in that situation:

b. *Losing:*

Suppose at the end you are not the winner, and you did not learn any additional information. Please rate the intensity of the emotions listed below you anticipate experiencing in that situation:

Survey Table:

	1 Not at all	2	3	4	5	6	7	8	9 Very much
<i>Anger</i>									
<i>Elation</i>									
<i>Envy</i>									
<i>Happiness</i>									
<i>Irritation</i>									
<i>Regret</i>									
<i>Relief</i>									
<i>Sadness</i>									