

INSTRUCTIONS FOR STOCK MARKET TRADING

At the beginning of this game you will be endowed with a certain amount of stock and cash (the relative amount of stock and cash differs from person to person). During each period you can buy and sell shares in an electronic market with other participants. There will be a total of **8 periods**, the first will last four minutes and the rest will last two minutes.

Each share pays a dividend at the end of **every period**, which is drawn from the following distribution: \$4.00, \$1.50, \$0.50, or \$0.00 with equal probability (hence the expected dividend payment is \$1.50). The dividend realization is independent from period to period. After the dividend is paid in the **last** period, the share will expire worthless.

The number of shares and cash that you have at the end of each period will carry over from period to period. Your earnings in this game are equal to the total amount of cash you are holding at the end of the 8th period.

Normally, in a given period, you learn the size of the dividend until the period has ended. However, there is a small chance that you receive **insider knowledge** of a period's dividend payment before trading begins. Specifically, every period there is a 0.5 probability that **one trader** in the market knows what the dividend will be.

Example

Suppose that after trading ends in period 7 you own 5 shares and you have \$45.00 in cash. Next, you learn that each share in period 7 paid a dividend of \$1.50. Your total dividend in period 7 is thus \$7.50. This means that when period 8 starts you will have 5 shares to trade and \$52.50 in cash. Now, suppose that after trading ends in period 8 you own 4 shares and you have \$55.50 in cash. Next, you learn that each

share in period 8 paid a dividend of \$4.00. Your total dividend in period 8 would be \$16.00. This makes your total amount of cash equal to \$71.50. Since this is the last period, that amount of cash equals your earnings in this experiment.

FIGURE 1 – SCREENSHOT OF THE TRADING SCREEN

Period 1

Number of remaining dividend payments: **10**

Number of remaining shares: **1**

Amount of remaining cash: **\$55.00**

10 seconds left!

<p>Submit Offer to Sell <input type="text"/></p> <p>Make an offer to sell</p> <p>Your lowest offer: \$15.00</p> <p>Withdraw Offer</p>	<p>Buy at this Price</p> <p>Lowest Offer</p> <p>\$11.00</p> <p>Open Offers to Sell</p> <table border="1"> <tr><td>\$11.00</td></tr> <tr><td>\$12.00</td></tr> <tr><td>\$12.00</td></tr> <tr><td>\$15.00</td></tr> </table>	\$11.00	\$12.00	\$12.00	\$15.00	<p>Sell at this Price</p> <p>Highest Bid</p> <p>\$9.00</p> <p>Open Bids to Buy</p> <table border="1"> <tr><td>\$9.00</td></tr> <tr><td>\$8.50</td></tr> <tr><td>\$7.50</td></tr> </table>	\$9.00	\$8.50	\$7.50	<p><input type="text"/> Submit Bid to Buy</p> <p>Make a bid to buy</p> <p>Your current bid: \$8.50</p> <p>Withdraw Bid</p>
\$11.00										
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Trading

The trading will be done through the computer. Above, you can see how the trading screen looks like.

On the top part of the screen you can see the trading period number and the number of remaining dividend payments. You can also see the number of shares that you own and the amount of cash that you have. Furthermore, you can see how much time is left for trading in this period.

Lower down you can see the area where you will be trading. We describe how to sell and buy shares in the following paragraphs.

Selling shares

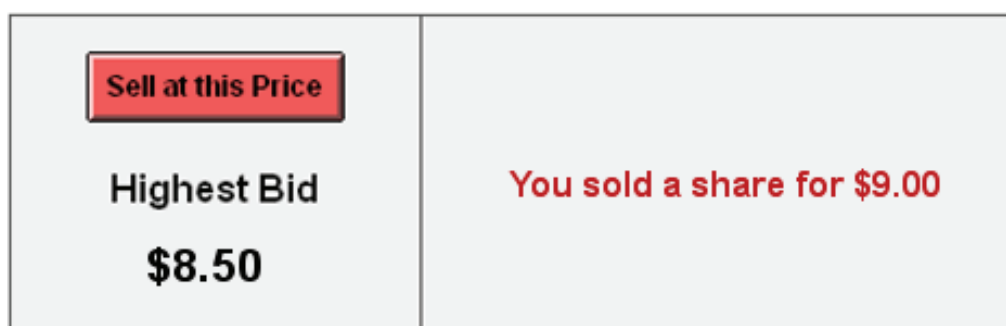
In each period, you will be able to sell shares. Note that you can only sell shares that you own. You may sell shares in two ways:

1. By accepting a bid to buy from another participant.
2. By posting an offer to sell to other participants.

1. Accepting a bid

On the right side of the screen you can see the outstanding bids to buy shares at different prices. You can instantly sell a share to another participant by accepting the 'Highest Bid' (see Figure 2). If you click on the **"Sell at this price"** button you will sell one share at the highest available price. That is, your total amount of shares will decrease by one and your amount of cash will increase by the price at which you sold the share. When you sell a share a message will appear on the adjoining box.

FIGURE 2 – ACCEPTING A BID



2. Posting an offer to sell

Instead of accepting the standing bid, you can also post an offer to sell one share. Simply enter the price at which you would like to sell your share and click on the “**Submit Offer to Sell**” button.

FIGURE 3 – POSTING AN OFFER TO SELL

<div><div>Submit Offer to Sell</div><div>15</div><div>Make an offer to sell</div><div>Your current offer: \$15.00</div><div>Withdraw Offer</div></div>	<table><tr><th colspan="2">Open Offers to Sell</th></tr><tr><td></td><td>\$11.00</td></tr><tr><td></td><td>\$12.00</td></tr><tr><td></td><td>\$12.00</td></tr><tr><td></td><td>\$15.00</td></tr></table>	Open Offers to Sell			\$11.00		\$12.00		\$12.00		\$15.00
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	\$11.00										
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	\$12.00										
	\$15.00										

Once your offer has been posted, other participants can decide whether they want to accept it. If your offer is accepted your total amount of shares decreases by one and your amount of cash increases by the price you posted. Furthermore, a message indicating that your offer was accepted appears on the screen. Note that you can post only one offer at a time. New offers will replace existing ones.

On the screen you will be able to see all open offers sorted from high to low. If you wish to withdraw your offer you can do so by clicking on the **Withdraw Offer** button (see Figure 3).

Buying shares

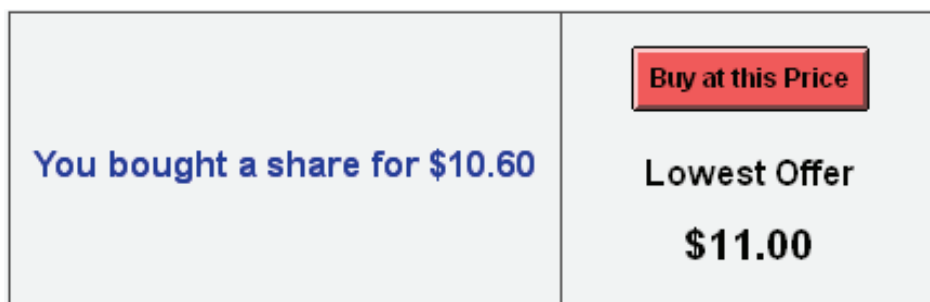
In each period, you will be able to buy shares. Again, you can only buy a share if you have enough cash to cover the price. You may buy shares in two ways:

1. By accepting an offer to sell from another participant.
2. By posting a bid to buy from other participants.

1. Accepting an offer

On the left side of the screen you can see the outstanding offers to sell shares at different prices. You can instantly buy a share from another participant by accepting the 'Lowest Offer' (see Figure 4). If you click on the **"Buy at this price"** button you will buy one share at the lowest available price. That is, your total amount of shares will increase by one and your amount of cash will decrease by the price at which you bought the share. When you buy a share a message will appear on the adjoining box.

FIGURE 4 – ACCEPTING AN OFFER



2. Posting a bid to buy

Instead of accepting the standing offer, you can also post a bid to buy one share. Enter the price at which you wish to buy a share and click on the **"Submit Bid to Buy"** button.

FIGURE 5 – POSTING A BID TO BUY

Open Bids to Buy	
\$9.00	<input type="text" value="9"/>
\$8.50	
\$7.50	
	<input type="button" value="Submit Bid to Buy"/>
	Make a bid to buy
	Your current bid: \$9.00
	<input type="button" value="Withdraw Bid"/>

Once your bid has been posted, other participants can decide whether they want to accept it. If your bid is accepted your total amount of shares increases by one and your amount of cash decreases by the price you posted. Furthermore, a message indicating that your bid was accepted appears on the screen. Note that you can post only one bid at a time. New bids will replace existing ones.

Finally, on the screen you see all open bids sorted from low to high. If you wish to withdraw your bid you can do so by clicking on the **“Withdraw Bid”** button (see Figure 5).