

Instructions for the Trading Experiment

1. You are about to participate in an experiment that will last several trading periods. Participants are divided into three types, called Type 1, Type 2, and Type 3. There are also three types of goods in the experiment, called Good 1, Good 2, and Good 3. Type 1 people consume only Good 1. Whenever a Type 1 person consumes Good 1, he or she automatically produces Good 2. Similarly, Type 2 people consume Good 2 and produce Good 3. Also, Type 3 people consume Good 3 and produce Good 1. Your ID tag indicates which type of person you are. There are roughly equal numbers of Types 1, 2, and 3.

2. Because you do not produce the good that you wish to consume, you will have to trade with someone else to get your good. Each period, you will be randomly matched with someone else in the experiment. You and the person you are matched with will each be holding one unit of a good. You may trade the good you are holding for the good that person is holding, provided both of you are willing to trade. All trades are one for one, so you may not trade any fractions of a good. Note that there are three possible outcomes of a meeting:

- (i) You trade for the good you consume. Then you automatically consume your good, and automatically produce the good your type produces. Then you store your production good until the next period.
- (ii) You trade so that you receive some good that is not your consumption good. Then you store that good until the next period.
- (iii) You do not trade. Then you store the good you are currently holding until the next period.

3. At the beginning of the next period, you will again be randomly matched with another participant, and you will decide whether you want to trade with that person.

4. Your objective is to get as many points as possible over the course of the experiment. Points represent the satisfaction you get from consuming your good minus the costs of storing goods. Each time you consume your good, you earn 20 points. At the end of every period, you pay a cost in points for the good you are storing. The costs of storing goods are one point for storing Good 1, four points for storing Good 2, and nine points for storing Good 3.

5. Each player begins the experiment with 40 points, plus one unit of the good that he or she produces.

6. Let's consider how you earn points. Suppose that you just received in trade your consumption good. Then, you earn the net payoff shown in the table below.

Type	Points for Consuming	Storage Cost of Good Produced	Net Points Earned
1	Gets 20 for consuming Good 1	Pays 4 to store Good 2	16
2	Gets 20 for consuming Good 2	Pays 9 to store Good 3	11
3	Gets 20 for consuming Good 3	Pays 1 to store Good 1	19

7. Recall that at the end of every period you must pay a storage cost for the good that you store, whether you consumed that period or not. Please keep track of your points on your record-keeping sheet.

Record-Keeping Sheet for the Trading Experiment

Your Type: _____ Your Name: _____

Type of Person	Consumes	Produces
1	Good 1	Good 2
2	Good 2	Good 3
3	Good 3	Good 1

Good	Storage Cost in Points
1	1
2	4
3	9

You start Period 1 with one unit of the good that you produce and 40 points.

Period	Good You Start With	Type of Person Matched With	Good That Person Is Holding	Did You Trade ?	Did You Consume? If Yes, Mark 20 Points.	Storage Cost at End of Period	Total Points
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							