



Welcome to this experiment. Thank you for coming. These Instructions are to help you to understand what you are being asked to do during the experiment, and how you can earn money from it. This will be paid to you in cash after you have completed the experiment.

In this experiment there is no participation fee – what you earn in the experiment is what you will be paid.

Please do not talk with others for the duration of the experiment. If you have a question please raise your hand and one of the experimenters will answer your question in private. Please turn off your mobile phone.

What the experiment involves

The experiment involves trading, with the other 11 participants in this experimental session, *current tokens* for *next-period tokens*. It is a forward market experiment.

The experiment as a whole

The experiment consists of a number of *sequences*, each of which is divided into a number of *periods*. The number of periods in a sequence is random and hence the number of sequences is random. In all periods the market will be open and you can trade.

Current tokens and future tokens

The experiment involves *tokens* in the current period and in future periods. Current tokens are consumed at the end of the period. Within a period you can exchange current tokens for next-period tokens by trading in the market.

Tokens in each period and each sequence

In each period within a sequence you will be endowed with a certain number of tokens. This token endowment will vary from period to period. Tokens will go in a *cycle* of length 3 in each sequence, with the endowment in the first period varying from subject to subject. So the token endowment will be 109, 53, 67, 109, 53, 67, and so on, for four subjects; will be 59, 123, 55, 59, 123, 55, and so on, for four other subjects; and 69, 61, 115, 69, 61, 115, and so on, for four others. This is to make trading mutually beneficial.

How you will be paid

As explained, you will be endowed with a certain number of tokens at the beginning of every period. You can trade throughout a period and hence increase or decrease your stock of tokens (while at the same time decreasing or increasing your start-of-next period tokens holding). Your payment for any one period will be determined by your end-of-period tokens holding. Please consult the Table and the Figure at the end of these Instructions; examine whichever you find most convenient. For example, an end-of-period tokens holding of 79 implies a payment of £1. Do note that if your end-of-period tokens holding is less than 65 your payment for that period will be negative. Negative payments will be offset against positive payments. Also note that the payment from each additional token that you hold at the end of a period is diminishing; for example, the payment difference between 105 and 106 end-of-period tokens is smaller than the difference between 79 and 80 end-of-period tokens. To protect you against any large losses, the software will not allow you to trade in such a way that your token balance falls below 45 at any time. Your payment for the experiment as a whole will be the sum of the payments over all the periods for which the experimental session has lasted.

How long each period lasts

Each period lasts 3 minutes.

The number of periods within a sequence

As already noted the number of periods in a sequence is random. At the end of every period one of the participants will roll a die (with sides numbered from 1-6). If the number rolled is 1 to 5, the sequence will continue with a new 3-minute period. If a 6 is rolled, the sequence will end.

How long the experiment will last

If less than one hour has passed since the start of the first sequence, a new sequence will begin. If more than one hour has elapsed since the beginning of the first sequence then the current sequence will be the last sequence played; that is, the next time a 6 is rolled the sequence will end and the

experiment will be over. In the unlikely event that more than two hours have elapsed since the beginning of the first sequence, or more than one hour has elapsed since the beginning of the current sequence, then we will simply stop the experiment that day; if the experiment is paused this way, you will be invited to continue and finish that sequence at a later date. Whatever the outcome of the random processes, you will be in this laboratory today for at most two-and-a-half hours (including reading these Instructions and watching a short video).

Rules for trading in this market

Trading involves *either*: setting a price at which you want to buy or sell, and the quantity of current tokens that you want to buy or sell, in exchange for next-period tokens; *or* indicating the quantity of current tokens that you want to exchange and the quantity of next-period tokens that you want in exchange. The way you do this is described in the video that you will watch after all have read these Instructions. The experiment will start with a practice period, which will not count towards your payment.

Why you might want to trade in this forward market

Exchanging current tokens for next-period tokens enables you to vary your current end-of-period tokens: if your start-of-period tokens are higher than you would like, you might want to buy some next-period tokens; if your start-of-period tokens are lower than you would like, you might want to sell some next period tokens, but remember that if you sell next-period tokens your start-of-period tokens in the next period will be lower.

Summary and Conclusions

This experiment is about trading current tokens for next-period tokens. You might want to buy current tokens if they are too low; you might want to sell current tokens if they are too high. But all depends upon the price in the exchange. This is determined within the experiment by the decisions of all the participants. You are one of them. Thank you for participating.

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Figure: Payment Schedule

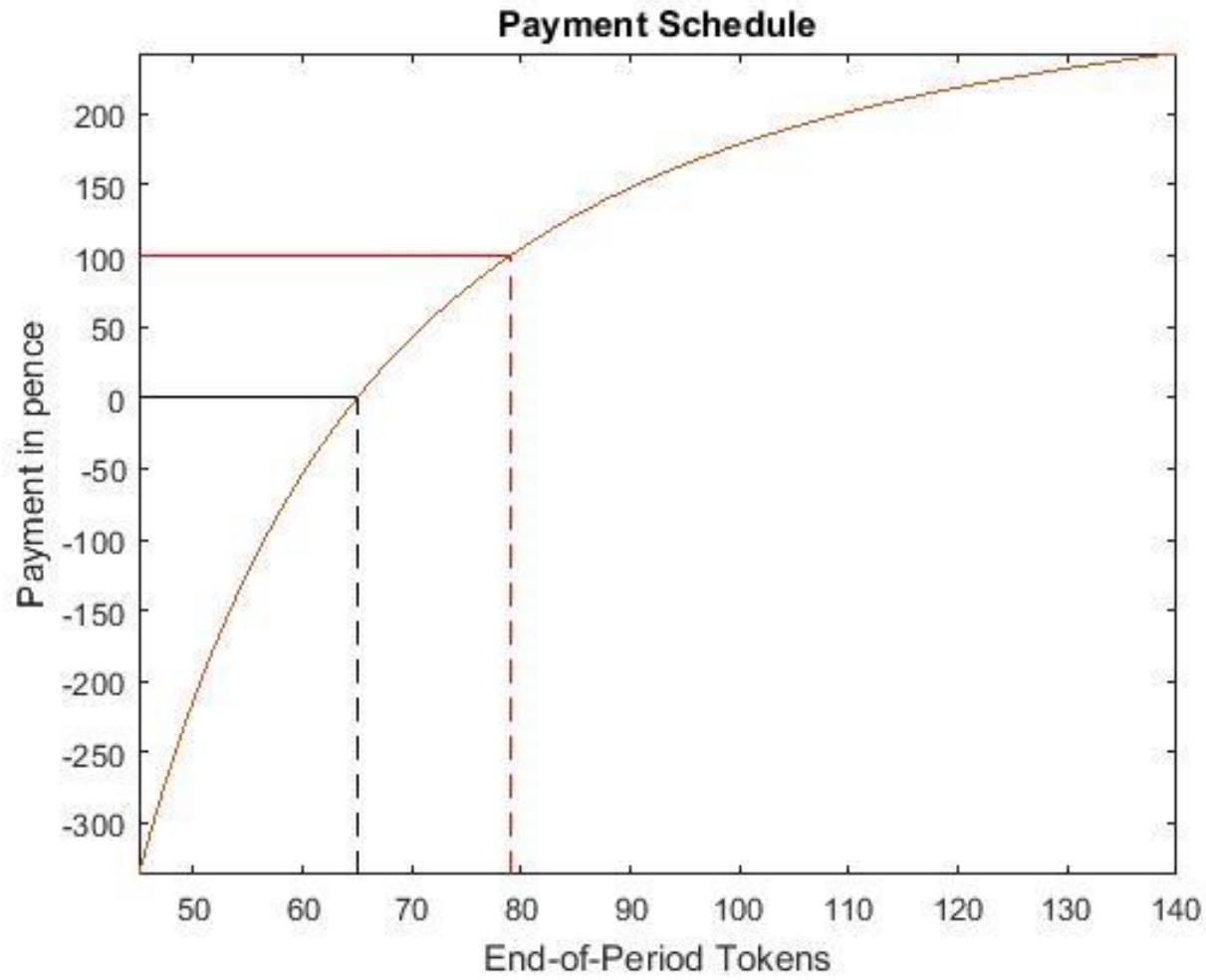


Table: Payment Schedule

End-of-period tokens	Payment in pence	End-of-period tokens	Payment in pence	End-of-period tokens	Payment in pence	End-of-period tokens	Payment in pence
45	-336	69	35	93	158	117	214
46	-309	70	43	94	162	118	216
47	-283	71	50	95	165	119	217
48	-258	72	57	96	168	120	219
49	-235	73	64	97	171	121	220
50	-214	74	71	98	173	122	222
51	-193	75	77	99	176	123	223
52	-174	76	83	100	179	124	225
53	-156	77	89	101	181	125	226
54	-139	78	95	102	184	126	227
55	-123	79	100	103	186	127	228
56	-108	80	105	104	189	128	230
57	-93	81	110	105	191	129	231
58	-79	82	115	106	193	130	232
59	-66	83	120	107	195	131	233
60	-54	84	124	108	197	132	235
61	-42	85	129	109	199	133	236
62	-31	86	133	110	201	134	237
63	-20	87	137	111	203	135	238
64	-10	88	141	112	205	136	239
65	0	89	144	113	207	137	240
66	9	90	148	114	209	138	241
67	18	91	152	115	211	130	242
68	27	92	155	116	212	140	243