Instructions (Worker)

General Information for Workers

Welcome to our experiment of the labour market. If you read these instructions carefully you may earn a considerable amount of money. From now until the end of the experiment you are not allowed to communicate with the other participants. If you have any questions, please raise your hand, and we will answer them individually. During the experiment your income will be calculated in Coupons. At the end of the experiment Coupons will be converted into Dollars at a rate of

<mark>XX Coupons = XX Dollar</mark>

At the end of the experiment your income will be paid to you in cash. The labour market has 10 periods consisting of two stages each:

Stage 1: Each of the participants will be randomly assigned to one of two groups: half will be "workers" and half will be "firms". **Whether you are a worker or a firm is noted at the top of the computer screen**. In the first stage firms will make a wage offer to the workers. Workers can either work for this wage or not accept the offer. If a worker accepts the wage offer the second stage follows.

Stage 2: At the second stage, those workers who accepted a wage offer must determine how much they work. The exact procedure is described below.

Overall, there will be ten periods. **Your total income for the participation in this market will be the sum of your earnings in each of the ten periods**.

Please note:
In each period you will be assigned to a different firm. Thus, your firm will always be another person!

Information Concerning the Labour Market

1. At the beginning of each period a firm *may* offer a wage to you. This wage offer will be shown on the computer screen. No other worker and no other firm will get to know your wage offer.
2. You may either accept the wage offer and work. Or you may not accept the wage offer.
3. If you accept a wage offer, you must decide how much you want to work. No other worker and no other firm will get to know about your choice. If a worker accepts a contract, he has to bear travel costs of 20 coupons.
4. If you do not accept the wage offer you will be unemployed in this period and earn nothing.

How do you calculate your income in each period?

1. If you have <u>not</u> concluded a labour contract, you will receive nothing in this period.
2. If you have <u>accepted</u> a wage offer you will receive this wage. From this wage you must then subtract the travel costs of 20 Coupons and the costs of your work quantity.
3. You determine your quantity of work by choosing a number between 0.1 and 1.0 from the schedule below. The lowest work quantity you can choose is 0.1, the second lowest is 0.2, and so on up to the highest amount 1.0.
4. The higher the work quantity you choose the better it is for "your" firm. The higher the number you choose, that is, the higher the quantity of work, the higher is "your" firm's income.
5. The higher the work quantity you choose the higher your work-related costs will be. You can find out how your costs are related to the quantity of work by looking at the schedule below.
6. If you have concluded a contract your income in Coupons will be determined by the following formula:

Income = wage− costs of quantity of work − travel costs

Travel Costs= 20 Coupons

Work quantity	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1
Costs	0	1	2	4	6	8	10	12	15	18

How do you calculate the income of a firm in each period?

1. Each firm receives 120 coupons from the experimenters which the firm may use to pay for wages. If the firm makes a wage bid of 120 Coupons, the firm will have no coupons left. If a firm offers a wage of 20 Coupons, the firm will have 100 coupons left. In general, the firm will have

    120 coupons − wage

    coupons left.

2. How the income is then calculated? The number of coupons retained by the firm whose wage offer you accepted is multiplied by the quantity of work you choose. This result is the income of your firm in Coupons. Thus:

Firm's income in Coupons = coupons retained × quantity of work

3. If you do not accept a wage offer of a firm, this firm will earn nothing during that period.

Please note: The income of all workers and firms will be computed according to the same rules. Every firm has 120 coupons and the work related cost-schedule as well as the travel costs are the same for every worker. Every

worker is able to compute the income of "his" firm and every firm is able to compute the income of the firm's worker.

Let's have an exercise!

Let's assume that a firm, who has 120 coupons, offers you a wage of 110 Coupons.
1. You do not accept! What will your income and the income of "your" firm be?
My income = ... Coupons
Firm's income = ... Coupons

2. You accept the wage offer and choose a quantity of work of 0.5! What will your income and the income of "your" firm be?
My income = ... Coupons
Firm's income= .... Coupons

Let's assume that a firm, who has 120 coupons, offers you a wage of 28 Coupons:
1. You do not accept! What will your income and the income of "your" firm be?
My income = ... Coupons
Firm's income = ... Coupons

2. You accept the wage offer and choose a quantity of work of 0.6!
What will your income and the income of "your" firm be?
My income = ... Coupons
Firm's income = ... Coupons

Instructions (Firm)

General Information for firms

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<mark>XX Coupons = XX Dollar</mark>

At the end of the experiment your income will be paid to you in cash. The labour market has 10 periods consisting of two stages each:

Stage 1: Each of the participants will be randomly assigned to one of two groups: half will be "workers" and half will be "firms". **Whether you are a worker or a firm is noted at the top of the computer screen**. In the first stage firms will make a wage offer to the workers. Workers can either work for this wage or not accept the offer. If a worker accepts the wage offer the second stage follows.

Stage 2: At the second stage, those workers who accepted a wage offer must determine how much they work. The exact procedure is described below.

Overall, there will be ten periods. **Your total income for the participation in this market will be the sum of your earnings in each of the ten periods**.

Please note:
In each period you will be assigned to a different worker. Thus, your worker will always be another person!

Information Concerning the Labour Market

1. At the beginning of each period you may offer a wage to a worker. This wage offer will be transmitted to the worker by the experimenters. Wages must lie between 20 and 120. Please do not tell anybody about the wage offer that you make. No other worker and no other firm will get to know your wage offer. Please record the wage offer you have made on the decision sheet for that period.
2. The worker may either accept the wage offer and work, or he may not accept the wage offer.
3. If the worker accepts a wage offer he must decide how much he wants to work. We will then transmit his choice to you. No other worker and no other firm will get to know about the work quantity chosen. If a worker accepts a contract he has to bear travel costs of 20 Coupons.

4. If a worker does not accept the wage offer no labour contract is concluded and you will earn nothing in that period. The worker is unemployed in that period and will earn nothing as well.

How do you calculate the income of a worker in each period?

1. If a worker does <u>not</u> accept a wage offer, he will receive nothing in this period.
2. If a worker has <u>accepted</u> a wage offer he will receive this wage. From this wage he must then subtract the **travel costs** and the **costs of the work quantity chosen**.
3. The worker determines his quantity of work by choosing a number between 0.1 and 1.0 from the schedule below. The lowest work quantity is 0.1, the second lowest is 0.2, and so on up to the highest amount 1.0.
4. The higher the work quantity the worker chooses the better it is for you. The higher the number he chooses that is, the higher the quantity of work, the higher is your income.
5. The higher the work quantity the worker chooses the higher his work-related costs will be. You can find out how the costs are related to quantity of work by looking at the schedule below.
6. If a worker has accepted a wage offer his income in Coupons will be determined by the following formula:

Income = wage − costs of quantity of work − travel costs

Travel Costs= 20 Coupons

Work quantity	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1
Costs	0	1	2	4	6	8	10	12	15	18

How do you calculate your income in each period?

1. You receive 120 coupons from the experimenter which you may use to pay for wages. If you make a wage offer of 120 Coupons to a worker, then you will have no coupons left. If your offer is 20 Coupons then you will have 100 coupons left. In general, you will have

120 coupons – wage income in Coupons.

2. How the income is then calculated? The number of coupons retained is multiplied by the quantity of work that "your" worker chooses. The result is your income in Coupons. Thus:

Income in Coupons = [amount of coupons − wage] × work quantity

3. If no worker accepts your wage offer you will earn nothing during that period.

The income of all workers and firms will be computed according to the same rules. Every firm has 120 coupons and the work related cost-schedule as well as the travel costs are the same for every worker. Every worker is able to

compute the income of "his" firm and every firm is able to compute the income of the firm's worker.

Let's have an Exercise!

Let's assume that you make a wage offer of 110 Coupons to a worker.

1. The worker does not accept!

What will your income and the income of "your" worker be?

My income = ... Coupons

Worker's income= .... Coupons

2. The worker accepts the wage offer and chooses a quantity of work of 0.5!

What will your income and the income of "your" worker be?

My income = ... Coupons

Worker's income= .... Coupons

Let's assume that you make a wage offer of 28 Coupons to a worker:

1. The worker does not accept!

What will your income and the income of "your" worker be?

My income = ... Coupons

Worker's income= .... Coupons

B. The worker accepts the wage offer and chooses a quantity of work of 0.6! What will your income and the income of "your" worker be?

My income = ... Coupons

Worker's income= .... Coupons

Instructions (Worker)

General Information for Workers

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Stage 2: At the second stage, those workers who accepted a wage offer must determine how much they work. The exact procedure is described below.

Overall, there will be ten periods. **Your total income for the participation in this market will be the sum of your earnings in each of the ten periods**.

Please note:
In each period you will be assigned to a same firm. Thus, your firm will always be the same person!

Information Concerning the Labour Market

1. At the beginning of each period a firm *may* offer a wage to you. This wage offer will be shown on the computer screen. No other worker and no other firm will get to know your wage offer.
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3. If you accept a wage offer, you must decide how much you want to work. No other worker and no other firm will get to know about your choice. If a worker accepts a contract, he has to bear travel costs of 20 coupons.
4. If you do not accept the wage offer you will be unemployed in this period and earn nothing.

Fixed

How do you calculate your income in each period?

1. If you have <u>not</u> concluded a labour contract, you will receive nothing in this period.
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3. You determine your quantity of work by choosing a number between 0.1 and 1.0 from the schedule below. The lowest work quantity you can choose is 0.1, the second lowest is 0.2, and so on up to the highest amount 1.0.
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   120 coupons – wage = coupons left.

2. How the income is then calculated? The number of coupons retained by the firm whose wage offer you accepted is multiplied by the quantity of work you choose. This result is the income of your firm in Coupons. Thus:

Firm's income in Coupons = coupons retained × quantity of work

   This means, the higher the number of coupons the firm will keep for itself, or the more you work, the higher the firm's income will be.

3. If you do not accept a wage offer of a firm, this firm will earn nothing during that period.

Fixed

Please note: The income of all workers and firms will be computed according to the same rules. Every firm has 120 coupons and the work related cost-schedule as well as the travel costs are the same for every worker. Every worker is able to compute the income of "his" firm and every firm is able to compute the income of the firm's worker.

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Let's assume that a firm, who has 120 coupons, offers you a wage of 28 Coupons:
   1. You do not accept! What will your income and the income of "your" firm be?
My income = ... Coupons
Firm's income = ... Coupons

   2. You accept the wage offer and choose a quantity of work of 0.6!
What will your income and the income of "your" firm be?
My income = ... Coupons
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Fixed

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Fixed

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Let's assume that you make a wage offer of 28 Coupons to a worker:
    1. The worker does not accept!
What will your income and the income of "your" worker be?
My income = ... Coupons
Worker's income= .... Coupons

B. The worker accepts the wage offer and chooses a quantity of work of 0.6! What will your income and the income of "your" worker be?
My income = ... Coupons
Worker's income= .... Coupons