

**INSTRUCTIONS:**

Thank you for being part of our research. This is a two part study. In the first part, you need to fill out a questionnaire which will take about 15 minutes. Please answer the questions in the questionnaire truthfully. After that in the second part of the experiment, you will be participating in a study of labor markets. We will give you the detailed instructions for that part later and if you follow them carefully you may earn a significant sum of money.

During the experiment it is important not to talk to any other subjects, play your browsers or your cell phones. So please turn your cell phones off and remember if you have any questions, just raise your hand and we will be by to answer them

## **Instructions for the Labor Markets**

Each of you will be randomly assigned to one of two groups: “Managers” and “Employees.” Whether you are a manager or employee is noted at the top of your screen.

Each market period will have three stages:

- Stage 1: Each manager assigns a wage to an employee.
- Stage 2: Each employee receives the assigned wage and chooses the amount of work to provide.
- Stage 3: Each manager learns about the amount of work provided by his or her employee.

As an employee, your income depends on the wage received less the cost of the amount of work provided. As a manager, your income depends on the wages paid and the amount of work provided. Details for computing employee and managers earnings will be provided shortly.

Once everyone has made their decisions and received their earnings, the first period of the labor market will be over. Over the course of the session, you will not be matched more than twice with the same person and you will never be paired with the same person for two consecutive periods. In addition, you will not know with whom you have been matched in any of the periods. Your total income for participating in this market will be the sum of the earnings in each of the twelve periods.

## **How the Labor Market Works**

1. At the beginning of each period we will open the labor market. In Stage 1 each manager chooses a wage for his or her employee on the computer screen and submits it. Employees must accept the wage they have been assigned, in order to form a labor contract with the manager.
2. No manager will know the identity of the employee with whom s/he has been paired, and no employee will know the identity of the manager.
3. After all wages have been communicated to each employee Stage 2 begins. Each employee chooses an amount of work to provide on his/her computer screen and submit it.
4. Both managers and employees observe the earnings for the period.

### **How Do Employees Calculate Their Income in Each Period?**

1. The income of an employee in each period is the difference between the wage she received and the cost of the amount of work he/she chose.
2. The amount of work can be any number between 0 and 100. The lowest amount of work you can choose is 0, 1 is a slightly higher amount, and so on up to 100, which is the highest amount.
3. The higher the amount of work that you choose, the better it is for the manager. That is, the higher the number you choose the higher the manager's income.
4. The higher the amount of work you choose, the higher your work-related costs. You can see how these costs are related to amount of work by looking at the schedule below.
5. Your income in Experimental Dollars will be determined by the following formula:

$$\text{Employee's Income} = 100 - \text{Amount of Work Provided} + [5 \times \text{Wage}]$$

### **How Do Managers Calculate their Income in Each Period?**

1. Each manager begins each period with 100 "offer notes" from which to pay wages to an employee. When a manager chooses a wage, those offer notes are given to the employee. The remaining offer notes are converted into Manager Income according to the following formula:

$$\text{Manager's Income} = 100 - \text{Wage} + [5 \times \text{Amount of Work Provided}]$$

During the experiment your income will be calculated in "Experimental dollars," which will be converted into real dollars at the rate of:

$$250 \text{ Experimental Dollars} = \$1$$

In addition, you will receive a \$6 payment for filling out the questionnaire and for showing up on time. Your total earnings for participating in the experiment will be the sum of your earnings in each of the twelve market periods plus the \$6 participation fee. You will be paid privately at the conclusion of the experiment in cash.

Next you will see some practice questions on your screens. Once everybody answers them correctly, the real session will start.

Are there any questions?

## Practice Exercises

Employee's Income =  $100 - \text{Amount of Work Provided} + [5 \times \text{Wage}]$

Manager's Income =  $100 - \text{Wage} + [5 \times \text{Amount of Work Provided}]$

1. Assume that a manager, who has 100 offer notes, assigns a wage of 80 experimental dollars to the employee. At the second stage of the period, the employee chooses an amount of work of 20.

What is the income for the employee and for the manager?

Employee's Income = \_\_\_\_\_ Experimental dollars

Manager's Income = \_\_\_\_\_ Experimental dollars

**Answer: 480/120**

2. Assume again that a manager assigns a wage of 80 to the employee. At the second stage of the period, the employee chooses an amount of work of 50.

What is the income for the employee and for the manager?

Employee's Income = \_\_\_\_\_ Experimental dollars

Manager's Income = \_\_\_\_\_ Experimental dollars

**Answer: 450/270**

3. Assume that a manager, who has 100 offer notes, assigns a wage of 20 experimental dollars to the employee. At the second stage of the period, the employee chooses an amount of work of 80.

What is the income for the employee and for the manager?

Employee's Income = \_\_\_\_\_ Experimental dollars

Manager's Income = \_\_\_\_\_ Experimental dollars

**Answer: 120/480**

4. Assume again that a manager assigns a wage of 20 to the employee. At the second stage of the period, the employee chooses an amount of work of 1.

What is the income for the employee and for the manager?

Employee's Income = \_\_\_\_\_ Experimental dollars

Manager's Income = \_\_\_\_\_ Experimental dollars

**Answer: 199/85**