Appendix 1

Subject Number_____

This experiment that we invite you to participate in today involves decisions to enter a competitive market and will be played for real money. If you agree to participate in the experiment you will be given a total of $10, which is yours to keep. The experiment involves a series of decisions about whether to enter or not enter a market. Before each series of decisions, we will announce a number C and write it on the board. You can think of C as the capacity or size of the market. For example, if the number 7 is written on the board then the 7 highest-ranked entrants will be successful and lower-ranked entrants will be unsuccessful. In all of the decisions below unsuccessful entrants lose $10, which can be thought of as a fixed cost for entering the market. There will be two different groups of decisions. In one group of decisions your success will be under your control and dependent on your skill in your chosen area. In the other group of decisions your success will be totally random (We explain below in greater detail how your rank is determined). You will never be forced to enter a market that you do not wish to and everyone will participate in both types of markets. The payoff for successful entrants will be described in detail below.

The following two pages contain your experimental reply forms. For each trial you are asked to write down 3 pieces of information. First, under the column labeled "C", you should write down the number that the experimenter writes down on the board at the beginning of each trial. The next column asks you to estimate the number of people that you expect will enter the market on that trial. Lastly and most importantly, indicate whether you decide to enter the market or not by checking the appropriate box.

In each sequence, your task is to decide whether to enter the market or to stay out of the market. If you do not enter, then you earn nothing and lose nothing. (Therefore, if you want to guarantee that you will not lose, simply do not enter.) If you do enter, then your payoff is determined by the payoff table shown at the top of the next page, and by your rank *relative to the ranks of other subjects who entered.*

For example, suppose C is 2. Then the highest-ranked entrant earns $33 and the second-highest ranked entrant earns $17. All other entrants-- those ranked 3 or below-- lose $10. One of the markets will be chosen randomly in front of the class after we have finished to be "played". Your decision on this market will determine your payoff.

MARKET EXPERIMENT A - Random Rank

NAME _____ DATE _____

Payoff for Successful Entrants as a function of "C"

Rank	2	4	6	8
1	33	20	14	11
2	17	15	12	10
3		10	10	8
4		5	7	7
5			5	6
6			2	4
7				3
8				2

How much would you earn if C=6, you entered, and your rank was 5 among the entrants? ____

How much would you earn if C=2, you entered, and your rank was 4 among the entrants? ____

ROUND	C	Expected # of Entrants	Enter	Not Enter	# of Entrants
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					