

Supplementary Material: Instructions for Participants

Dynamic Pricing in Bilateral Relationships: Experimental Evidence

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August 10, 2026

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1 Sale with commitment (SC)

1.1 Seller

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a ***seller*** throughout the experiment. You will be randomly matched with a buyer in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous buyer. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

At the beginning of each market, you are in possession of a virtual good that you can sell to the buyer once within ten periods at no cost. While the virtual good has no value to you, the value of the good to buyers is either 50 points or 100 points. 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

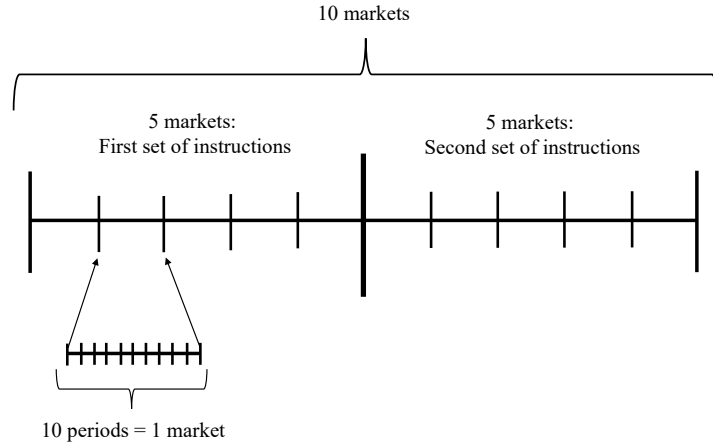


Figure 1: General structure of the experiment

When entering a market, you do not know whether you are matched with a high-value or a low-value buyer. But note that both the high-value and the low-value buyer have an incentive to purchase the good earlier rather than later. When a buyer purchases the good, he/she obtains his/her value of the good in the purchase period and every subsequent period until the market ends (without having to purchase again). In addition, the value a buyer receives decreases by 40% from period to period, so that a buyer receives his/her full value only in the purchase period and reduced values in the following periods.

The two tables below show how the high-value buyer's values change depending on when he/she buys. The first table shows the values from the perspective of the first period, the second table shows the values from the perspective of the second period.

Purchase period	Value delivered in period				Total value
	1	2	...	10	
1	100	0.6×100	...	$0.6^9 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$
2		0.6×100	...	$0.6^9 \times 100$	$0.6 \times 100 + \dots + 0.6^9 \times 100$
...				...	...
10				$0.6^9 \times 100$	$0.6^9 \times 100$

Table 1: High-value buyer's total values viewed from period 1 (Example)

From the perspective of period 1, in Table 1, if the buyer chooses to purchase in the first period, the value delivered is 100 in the first period, 0.6×100 in the second, and so on, until $0.6^9 \times 100$ in the final period. As a result, the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$. Instead, if the buyer chooses to wait and buy in the second period, from the perspective of period 1 the value delivered is 0.6×100 in the second period, $0.6^2 \times 100$ in the third, and so on, until $0.6^9 \times 100$ in the final period. So, the total value delivered is $0.6 \times 100 + 0.6^2 \times 100 + \dots + 0.6^9 \times 100$.

Purchase period	Value delivered in period				Total value
	2	3	...	10	
2	100	0.6×100	...	$0.6^8 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$
3		0.6×100	...	$0.6^8 \times 100$	$0.6 \times 100 + \dots + 0.6^8 \times 100$
...					...
10				$0.6^8 \times 100$	$0.6^8 \times 100$

Table 2: High-value buyer's total values viewed from period 2 (Example)

From the perspective of period 2, in Table 2, if the buyer chooses to purchase in the second period, the value delivered in that period is 100, 0.6×100 in the third, and so on, until $0.6^8 \times 100$ in the final period, and thus the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$. The first period is not shown because, from the perspective of period 2, buying in the first period is no longer possible as the first period has already passed.

The buyer may purchase the good in any one of the 10 periods that a market lasts. When the good is sold, the price is paid by the buyer in that period and the market is closed. If the good is not sold within the 10 periods that the market is open, the good perishes and no longer provides any value to buyers. You can find the total value that high-value and low-value buyers would receive if they were to buy in the corresponding period of the market in Table 3.

You must choose the prices at which to sell your good while the market is open. **At the beginning of each market, you will be requested to set the prices for all 10 periods.** Every price must at least be 0. You make this choice by setting the prices in an answer field of the following form:

Your decision

Price in Round 1
 points

Price in Round 2
 points

Price in Round 3
 points

Price in Round 4
 points

Price in Round 5
 points

Price in Round 6
 points

Price in Round 7
 points

Price in Round 8
 points

Price in Round 9
 points

Price in Round 10
 points

[Next](#)

Figure 2: Answer field for setting the prices for all 10 periods

The prices you insert at the beginning of a market cannot be changed in later periods of the market. In each period of the market the buyer is shown your predetermined price for the corresponding period. If the buyer refuses to purchase the good at the price effective in the current period, the market moves on to the next period. Then again, the buyer will be shown the subsequent price as defined by you at the beginning of the market and choose whether to buy or not. This is repeated until the good is sold or all 10 periods have elapsed. Table 3 shows you the total value that buyers of

type 100 points and 50 points would receive when buying in a given period. For example, in period 1, a buyer of type 100 points would obtain a total value of 250 points if he/she would buy in that period.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will randomly select one of the 10 markets you participated in. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you sold your good while the selected market was open, you will receive the price paid by the buyer at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you sold your good at a price of 150 points in the selected market, you will earn an additional CHF 7.50. If you did not sell your good in the selected market, you will simply receive the minimum amount of CHF 20.

Purchase period	Total value	
	With value 100	With value 50
1	250	124
2	249	123
3	247	122
4	244	121
5	239	119
6	231	115
7	218	109
8	196	98
9	160	80
10	100	50

Table 3: Buyer's total values

1.2 Buyer

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple

and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a **buyer** throughout the experiment. You will be randomly matched with a seller in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous seller. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

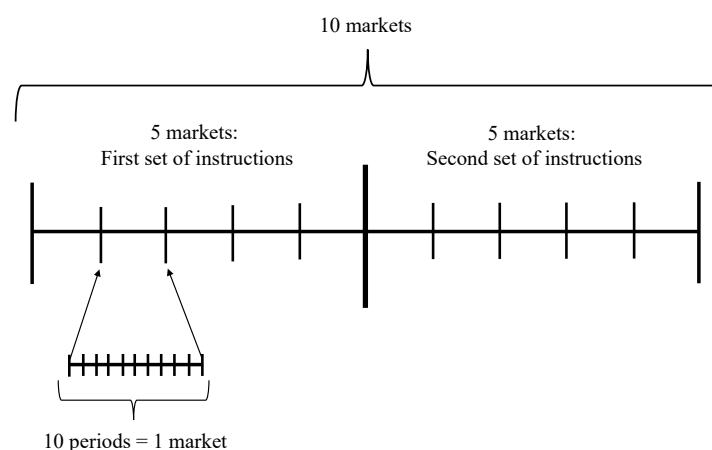


Figure 3: General structure of the experiment

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

The seller you are matched with in a market is in possession of a virtual good that he/she can sell at no cost and that you can buy once within ten periods. At the beginning of each market, you are informed about the value you assign to this virtual good. This value remains the same for all periods of the corresponding market being open. The value can be either 100 points or 50 points. It is commonly known that 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points. **However, when entering a market, the seller does not know whether you are a high-value or a low-value buyer.**

When you purchase the good, you will obtain your value of the good in both the current period and every subsequent period until the market ends (without having to purchase again). You therefore have an incentive to purchase the good earlier rather than later as the total value you obtain will be greater. Note, though, that the value you receive in each period decreases by 40% from period to period, so that you receive your full value (either 100 points or 50 points) only in the purchase period, and reduced values in the following periods until the market ends.

The two tables below show an example of how your values change depending on when you make the purchase. The first table shows the values from the perspective of the first period, the second table shows the values from the perspective of the second period. We will assume in this example that you value the good at 100 points.

Purchase period	Value delivered in period				Total value
	1	2	...	10	
1	100	0.6×100	...	$0.6^9 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$
2		0.6×100	...	$0.6^9 \times 100$	$0.6 \times 100 + \dots + 0.6^9 \times 100$
...				...	...
10				$0.6^9 \times 100$	$0.6^9 \times 100$

Table 4: High-value buyer's total values viewed from period 1 (Example)

From the perspective of period 1, in Table 4, if you choose to purchase in the first period, the value delivered is 100 in the first period, 0.6×100 in the second, and so on, until $0.6^9 \times 100$ in the final period. As a result, the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$. Instead, if you choose to wait and to buy in the second period, from the perspective of period 1 the value is 0.6×100 in the second period, $0.6^2 \times 100$ in the third, and so on, until $0.6^9 \times 100$ in the final period. So, the total value delivered is $0.6 \times 100 + 0.6^2 \times 100 + \dots + 0.6^9 \times 100$.

Purchase period	Value delivered in period				Total value
	2	3	...	10	
2	100	0.6×100	...	$0.6^8 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$
3		0.6×100	...	$0.6^8 \times 100$	$0.6 \times 100 + \dots + 0.6^8 \times 100$
...					...
10				$0.6^8 \times 100$	$0.6^8 \times 100$

Table 5: High-value buyer's total values viewed from period 2 (Example)

From the perspective of period 2, in Table 5, if you choose to purchase in the second period, the value delivered in that period is 100, 0.6×100 in the third, and so on, until $0.6^8 \times 100$ in the final period, and thus the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$. The first period is not shown because, from the perspective of period 2, buying in the first is no longer possible as the first period has already passed.

Thus, depending on the value you assign to the good, the total value that you would receive if you were to buy the good in the corresponding period of the market evolves over all 10 periods as depicted in Table 6.

You may purchase the good in any one of the 10 periods that a market lasts. When you decide to buy the good, you pay the price demanded by the seller for the corresponding period and the market is closed. If you decide not to buy the good within the 10 periods that the market is open, the good perishes and no longer provides any value to you. You can find the total value that you would receive if you were to buy in the corresponding period of the market in Table 6.

The seller must choose the prices at which to sell his/her good while the market is open. **At the beginning of each market, the seller will be requested to set the prices for all 10 periods without being able to change them in later periods of the market.** As a buyer you are shown the predetermined price corresponding to the period you are currently in. You can then decide whether to buy the good and pay the price effective in the corresponding period or reject the offer and move on to the subsequent period. You make this choice by selecting your reaction when shown the following:

Your decision in round 1

The seller set a price of 200 points.

Do you accept or reject?

☐ Accept

☐ Reject

Next

Figure 4: Accepting or rejecting the price set by the seller

If you buy the good at the price effective in the current period, the market is closed. **If you refuse to purchase the good at the price effective in the current period, the market moves on to the next period. You will then be shown the subsequent price as determined by the seller at the beginning of the market and you may again choose whether to buy the good or not.** This is repeated until the good is bought or all 10 periods have elapsed. Note that if you buy the good at a price greater than your total value in the given period, you will make a loss. However, if you buy the good at a price lower than your total value in the given period, you will make a gain in this market.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will randomly select one of the 10 markets you participated in. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you bought the good while the selected market was open, you will receive the difference between the total value of

the purchase and the price paid at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you were a buyer who values the good at 100 points and bought the good at a price of 150 in period 3 of the selected market (when your total value was 247), you will earn an additional CHF 4.85. If you did not buy the good in the corresponding market, you will simply receive the minimum amount of CHF 20.

Purchase period	Total value	
	With value 100	With value 50
1	250	124
2	249	123
3	247	122
4	244	121
5	239	119
6	231	115
7	218	109
8	196	98
9	160	80
10	100	50

Table 6: Buyer's total values

2 Sale without commitment (SNC)

2.1 Seller

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a *seller* throughout the experiment. You will be randomly matched with a buyer in each market. The buyer and the seller remain anonymous to each other at all times. Once a

market is closed, another market will open up in which you will be matched with another anonymous buyer. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

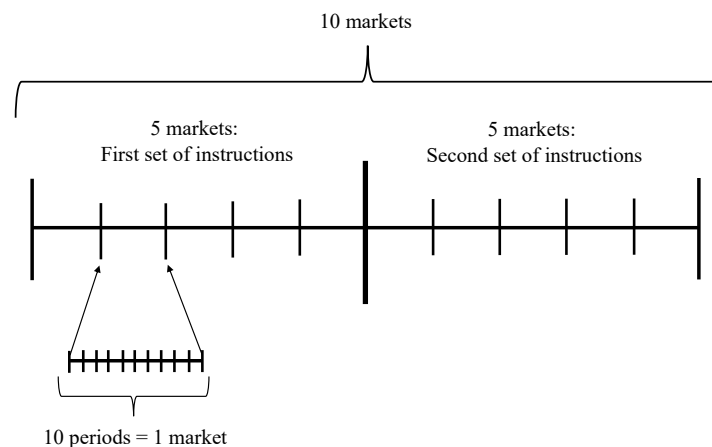


Figure 5: General structure of the experiment

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

At the beginning of each market, you are in possession of a virtual good that you can sell to the buyer once within ten periods at no cost. While the virtual good has no value to you, the value of the good to the buyer is either 50 points or 100 points. 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

When entering a market, you do not know whether you are matched with a high-value or a low-value buyer. But note that both the high-value and the low-value buyer have an incentive to purchase the good earlier rather than later. When a buyer purchases the good, he/she obtains his/her value of the good in the purchase period and every subsequent period until the market ends (without having to purchase again). In addition, the value a buyer receives decreases by 40% from period to period, so that a buyer receives his/her full value only in the purchase period and reduced values in the following periods.

The two tables below show how the high-value buyer's values change depending on when he/she buys. The first table shows the values from the perspective of the first period, the second table shows the values from the perspective of the second period.

Purchase period	Value delivered in period				Total value
	1	2	...	10	
1	100	0.6×100	...	$0.6^9 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$
2		0.6×100	...	$0.6^9 \times 100$	$0.6 \times 100 + \dots + 0.6^9 \times 100$
...				...	...
10				$0.6^9 \times 100$	$0.6^9 \times 100$

Table 7: High-value buyer's total values viewed from period 1 (Example)

From the perspective of period 1, in Table 7, if the buyer chooses to purchase in the first period, the value delivered is 100 in the first period, 0.6×100 in the second, and so on, until $0.6^9 \times 100$ in the final period. As a result, the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$. Instead, if the buyer chooses to wait and buy in the second period, from the perspective of period 1 the value delivered is 0.6×100 in the second period, $0.6^2 \times 100$ in the third, and so on, until $0.6^9 \times 100$ in the final period. So, the total value delivered is $0.6 \times 100 + 0.6^2 \times 100 + \dots + 0.6^9 \times 100$.

From the perspective of period 2, in Table 8, if the buyer chooses to purchase in the second period, the value delivered in that period is 100, 0.6×100 in the third, and so on, until $0.6^8 \times 100$ in the final period, and thus the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$. The first period is not shown because, from the perspective of period 2, buying in the first period is no longer possible as the first period has already passed.

Purchase period	Value delivered in period				Total value
	2	3	...	10	
2	100	0.6×100	...	$0.6^8 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$
3		0.6×100	...	$0.6^8 \times 100$	$0.6 \times 100 + \dots + 0.6^8 \times 100$
...					...
10				$0.6^8 \times 100$	$0.6^8 \times 100$

Table 8: High-value buyer's total values viewed from period 2 (Example)

The buyer may purchase the good in any one of the 10 periods that a market lasts. When the good is sold, the price is paid by the buyer in that period and the market is closed. If the good is not sold within the 10 periods that the market is open, the good perishes and no longer provides any value to buyers. You can find the total value that high-value and low-value buyers would receive if they were to buy in the corresponding period of the market in Table 9.

You must choose the prices at which to sell your good while the market is open. **In each of the 10 periods, you will be requested to set the price for that period only.** Every price must at least be 0. You make this choice by setting the prices in an answer field as depicted in Figure 6.

Your decision in round 1

What price between 0 points and 275 points do you want to set?

 points

Next

Figure 6: Answer field for setting the price

In each period of the market you will be able to input a price for that period. If the buyer purchases the good at the price effective in the current period, the market is closed. If the buyer refuses to purchase the good at the price effective in the current period, the market moves to the next period. You will then again be requested to set a price, before the buyer again chooses whether to buy or not. This is repeated until the

good is sold or all 10 periods have elapsed. Table 9 shows you the total value that buyers with a value of 100 points and 50 points for the good would receive when buying in a given period. For example, in period 1, a buyer who values the good at 100 points would obtain a total value of 250 points if he/she would buy in that period.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will randomly select one of the markets you participated in. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you sold your good while the selected market was open, you will receive the price paid by the buyer at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you sold your good at a price of 150 points in the selected market, you will earn an additional CHF 7.50. If you did not sell your good in the selected market, you will simply receive the minimum amount of CHF 20.

Purchase period	Total value	
	With value 100	With value 50
1	250	124
2	249	123
3	247	122
4	244	121
5	239	119
6	231	115
7	218	109
8	196	98
9	160	80
10	100	50

Table 9: Buyer's total values

2.2 Buyer

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a *buyer* throughout the experiment. You will be randomly matched with a seller in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous seller. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

The seller you are matched with in a market is in possession of a virtual good that he/she can sell at no cost and that you can buy once within ten periods. At the beginning of each market, you are informed about the value you assign to this virtual good. This value remains the same for all periods of the corresponding market being open. The value can be either 100 points or 50 points. It is commonly known that 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all

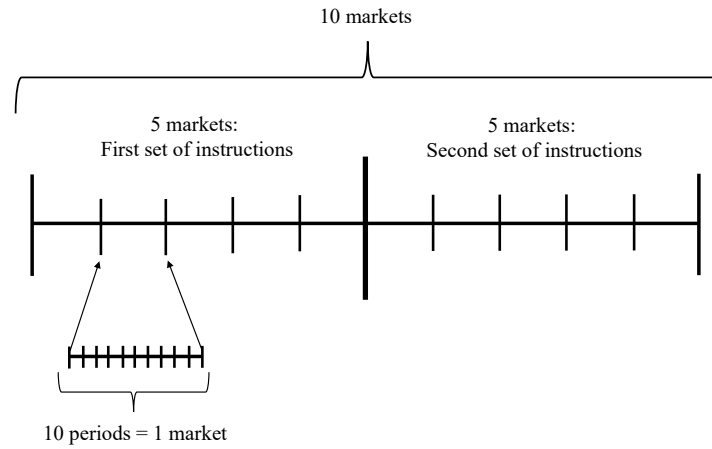


Figure 7: General structure of the experiment

buyers assign the low value of 50 points. **However, when entering a market, the seller does not know whether you are a high-value or a low-value buyer.**

When you purchase the good, you will obtain your value of the good in both the current period and every subsequent period until the market ends (without having to purchase again). You therefore have an incentive to purchase the good earlier rather than later as the total value you obtain will be greater. Note, though, that the value you receive in each period decreases by 40% from period to period, so that you receive your full value (either 100 points or 50 points) only in the purchase period, and reduced values in the following periods until the market ends.

The two tables below show an example of how your values change depending on when you make the purchase. The first table shows the values from the perspective of the first period, the second table shows the values from the perspective of the second period. We will assume in this example that you value the good at 100 points.

From the perspective of period 1, in Table 10, if you choose to purchase in the first period, the value delivered is 100 in the first period, 0.6×100 in the second, and so on, until $0.6^9 \times 100$ in the final period. As a result, the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$. Instead, if you choose to wait and to buy in the second

Purchase period	Value delivered in period				Total value
	1	2	...	10	
1	100	0.6×100	...	$0.6^9 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^9 \times 100$
2		0.6×100	...	$0.6^9 \times 100$	$0.6 \times 100 + \dots + 0.6^9 \times 100$
...				...	...
10				$0.6^9 \times 100$	$0.6^9 \times 100$

Table 10: High-value buyer's total values viewed from period 1 (Example)

period, from the perspective of period 1 the value is 0.6×100 in the second period, $0.6^2 \times 100$ in the third, and so on, until $0.6^9 \times 100$ in the final period. So, the total value delivered is $0.6 \times 100 + 0.6^2 \times 100 + \dots + 0.6^9 \times 100$.

Purchase period	Value delivered in period				Total value
	2	3	...	10	
2	100	0.6×100	...	$0.6^8 \times 100$	$100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$
3		0.6×100	...	$0.6^8 \times 100$	$0.6 \times 100 + \dots + 0.6^8 \times 100$
...					...
10				$0.6^8 \times 100$	$0.6^8 \times 100$

Table 11: High-value buyer's total values viewed from period 2 (Example)

From the perspective of period 2, in Table 11, if you choose to purchase in the second period, the value delivered in that period is 100, 0.6×100 in the third, and so on, until $0.6^8 \times 100$ in the final period, and thus the total value delivered is $100 + 0.6 \times 100 + \dots + 0.6^8 \times 100$. The first period is not shown because, from the perspective of period 2, buying in the first is no longer possible as the first period has already passed.

Thus, depending on the value you assign to the good, the total value that you would receive if you were to buy the good in the corresponding period of the market evolves over all 10 periods as depicted in Table 12.

You may purchase the good in any one of the 10 periods that a market lasts. When you decide to buy the good, you pay the price demanded by the seller for the corresponding period and the market is closed. If you decide not to buy the good within the 10 periods that the market is open, the good perishes and no longer provides any value to you. You

can find the total value that you would receive if you were to buy in the corresponding period of the market in Table 12.

The seller will choose the prices at which to sell his/her good while the market is open. **In each of the 10 periods, the seller will be requested to set the price for that period.** This price will be shown to you. You must then decide whether to buy the good at this price or reject the offer and move on to the next period. You make this choice by selecting your reaction when shown the following:

Your decision in round 1

The seller set a price of 200 points.

Do you accept or reject?

☐ Accept

☐ Reject

Next

Figure 8: Accepting or rejecting the price set by the seller

If you buy the good at the price effective in the current period, the market is closed. If you refuse to purchase the good at the price effective in the current period, the market moves on to the next period. **The seller will then again be requested to set a price, before you again choose whether to buy or not.** This is repeated until the good is bought or all 10 periods have elapsed. Note that if you buy the good at a price greater than your total value in the given period, you will make a loss in this market. However, if you buy the good at a price lower than your total value in the given period, you will make a gain in this market.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will randomly select one of the 10 markets you participated in. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you bought the good while the selected market was open, you will receive the difference between the total value of

the purchase and the price paid at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you were a buyer who values the good at 100 points and bought the good at a price of 150 in period 3 of the selected market (when your total value was 247), you will earn an additional CHF 4.85. If you did not buy the good in the corresponding market, you will simply receive the minimum amount of CHF 20.

Purchase period	Total value	
	With value 100	With value 50
1	250	124
2	249	123
3	247	122
4	244	121
5	239	119
6	231	115
7	218	109
8	196	98
9	160	80
10	100	50

Table 12: Buyer's total values

3 Rental with commitment (RC)

3.1 Seller

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a *seller* throughout the experiment. You will be randomly matched with a buyer in each market. The buyer and the seller remain anonymous to each other at all times. Once a

market is closed, another market will open up in which you will be matched with another anonymous buyer. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

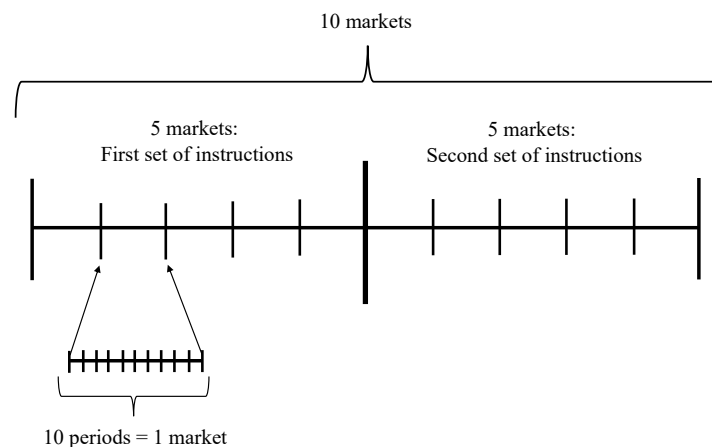


Figure 9: General structure of the experiment

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

Each market lasts for 10 periods. **At the beginning of each period, you are in possession of a virtual good that you can sell to the buyer for the corresponding period at no cost. You can thus sell the good up to 10 times.** While the virtual good has no value to you, the per-period value of the good to buyers is either 100 points or

50 points. 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

When entering a market, you do not know whether you are matched with a high-value or a low-value buyer. Importantly, the per-period value that the buyer you are matched with assigns to your virtual good does not vary over the course of the corresponding market. When a buyer buys the good in a given period, he/she will obtain his/her value of the good in that period only. The buyer will thus decide in each period anew whether to buy the good or not until the market closes.

The buyer may decide to buy the good in any of the 10 periods independent of whether he/she has bought the good in a previous period or not. When the good is sold, the price is paid by the buyer and the market moves to the subsequent period. After all 10 periods for which the market is open have been played, the good becomes valueless to buyers.

You must choose the prices at which to sell your good while the market is open. **At the beginning of each market, you will be requested to set the prices for all 10 periods.** Every price must at least be 0. You make this choice by setting the prices in an answer field as shown in Figure 10.

The prices you insert at the beginning of a market cannot be readjusted in later periods of the market. In each period of the market the buyer is shown your predetermined price for the corresponding period and will decide whether to buy the good at the price effective in the current period or not. Once the buyer has made his/her decision, the market moves to the next period. Then again, the buyer will be shown the subsequent price as defined by you at the beginning of the market and choose whether to buy the good or not. This is repeated until all 10 periods have been played.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will select one of the 10 markets you participated in at random. This market will be relevant for determining the additional amount you receive on top of the participation fee. If the selected market is one of the 5 markets described in these instructions, then your

Your decision

Price in Round 1
 points

Price in Round 2
 points

Price in Round 3
 points

Price in Round 4
 points

Price in Round 5
 points

Price in Round 6
 points

Price in Round 7
 points

Price in Round 8
 points

Price in Round 9
 points

Price in Round 10
 points

[Next](#)

Figure 10: Answer field for setting the prices for all 10 periods

additional payment will be determined as follows. If you sold your good at least once during the 10 periods of the selected market being open, all the prices paid by the buyer in that market over all 10 periods will be summed up. You will then receive this sum at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you sold your good four times in the selected market, once at a price equal to 95, twice at a price equal to 90 and once at a price equal to 75, you will earn an additional CHF 17.50. If you did not sell your

good at least once in the selected market, you will simply receive the minimum amount of CHF 20.

3.2 Buyer

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a **buyer** throughout the experiment. You will be randomly matched with a seller in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous seller. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

Each market lasts for 10 periods. **In each period, the seller is in possession of a virtual good that he/she can sell to you for the corresponding period at no cost. You can thus buy the good up to 10 times.** At the beginning of each market, you are informed about the per-period value you assign to a virtual good, being either 100 points or 50

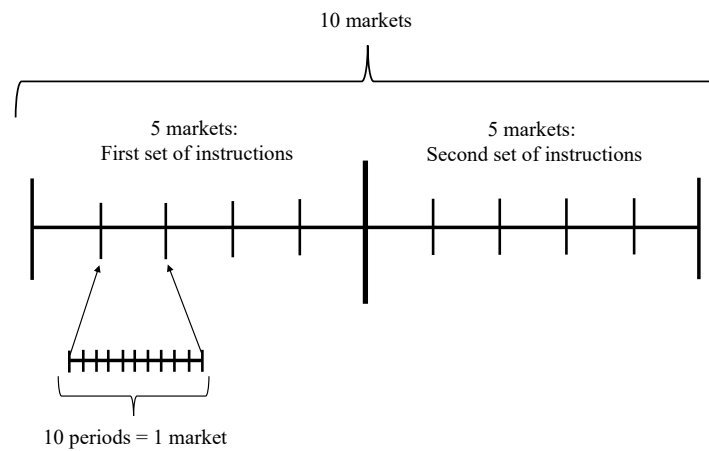


Figure 11: General structure of the experiment

points. This value remains the same for all periods of the corresponding market being open. It is commonly known that 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

When entering a market, the seller does not know whether you are a high-value or a low-value buyer. When you buy the good in a given period, you will obtain your value of the good in that period only. You will thus decide in each period anew whether to buy the good or not until the market closes.

You may decide to buy the good in any of the 10 periods independent of whether you have bought the good in a previous period or not. When the good is sold, you pay the corresponding price set by the seller and the market moves to the subsequent period. After all 10 periods for which the market is open have been played, the good becomes valueless to you.

The seller must choose the prices at which to sell his/her good while the market is open. **At the beginning of each market, the seller will be requested to set the prices for all 10 periods without being able to readjust them in later periods of the market.** As a buyer you are shown the predetermined price corresponding to the period you are

currently in. You may then decide whether to buy the good for the corresponding period and pay the price effective in that period or to reject the offer. You make this choice by selecting your reaction when shown the following:

Your decision in round 1

The seller set a price of 50 points.

Do you accept or reject?

☐ Accept

☐ Reject

Next

Figure 12: Accepting or rejecting the price set by the seller

In each period of the market you will decide whether to buy the good at the price effective in the current period or not. **Once you have made your decision, the market moves to the next period. You will then be shown the subsequent price as determined by the seller at the beginning of the market and may again choose whether to buy the good or not.** This is repeated until all 10 periods have been played. Note that if you buy the good at a price greater than your per-period value, you will make a loss. However, if you buy the good at a price lower than your per-period value, you will make a gain.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will select one of the 10 markets you participated in at random. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you bought the good at least once during the 10 periods of the selected market being open, the differences between the price paid and your value for the good will be summed up over all the periods of the selected market in which you chose to purchase. You will then receive this sum at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you were a buyer that values the good at 100 points and bought the good twice at a price of 80 and twice at a price of 60 in the

selected market, you will earn an additional CHF 6. If you did not buy the good at least once in the selected market, you will simply receive the minimum amount of CHF 20.

4 Rental without commitment (RNC)

4.1 Seller

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a *seller* throughout the experiment. You will be randomly matched with a buyer in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous buyer. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

Each market lasts for 10 periods. **At the beginning of each period, you are in possession of a virtual good that you can sell to the buyer for the corresponding period at no cost. You can thus sell the good up to 10 times.** While the virtual good

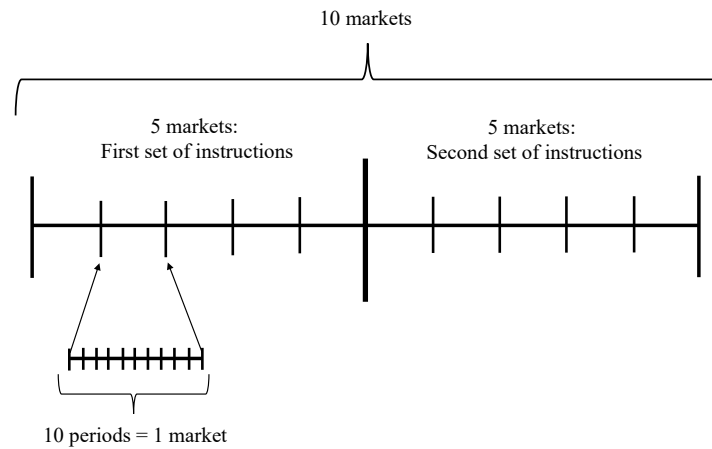


Figure 13: General structure of the experiment

has no value to you, the per-period value of the good to buyers is either 50 points or 100 points. 60 percent of all buyers assign the high value of 100 points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

When entering a market, you do not know whether you are matched with a high-value or a low-value buyer. Importantly, the per-period value that the buyer you are matched with assigns to your virtual good does not vary over the course of the corresponding market. When a buyer buys the good in a given period, he/she will obtain his/her value of the good in that period only. The buyer will thus decide in each period anew whether to buy the good or not until the market closes.

The buyer may decide to buy the good in any of the 10 periods independent of whether he/she has bought the good in a previous period. When the good is sold, the price is paid by the buyer and the market moves to the subsequent period. After all 10 periods for which the market is open have been played, the good perishes and no longer provides any value to buyers.

You must choose the prices at which to sell your good while the market is open. **In each of the 10 periods, you will be requested to set the price for that period.** Every

price must at least be 0. You make this choice by setting the prices in an answer field as depicted in Figure 14.

Your decision in round 1

What price between 0 points and 110 points do you want to set?

 points

Next

Figure 14: Answer field for setting the price

In each period of the market you will be able to input a price for that period in the table. Similarly, in each period of the market the buyer will decide whether to buy the good at the price effective in the current period or not. **Once the buyer has made his/her decision, the market moves to the next period. You will then again be requested to set a price, before the buyer again chooses whether to buy the good or not.** This is repeated until all 10 periods have been played.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will select one of the 10 markets you participated in at random. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you sold your good at least once during the 10 periods of the selected market being open, all the prices paid by the buyer in that market over all 10 periods will be summed up. You will then receive this sum at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you sold your good four times in the selected market, once at a price equal to 95, twice at a price equal to 90 and once at a price equal to 75, you will earn an additional CHF 17.50. If you did not sell your good at least once in the selected market, you will simply receive the minimum amount of CHF 20.

4.2 Buyer

This is an experiment in economic decision making. For your participation in this experiment you will receive a minimum amount of CHF 20. The instructions are simple and if you follow them carefully you will earn an extra amount that will be added to the minimum amount. All payments will be made in cash at the end of this experiment.

We are going to set up a series of markets that will last for ten periods each. In each of these markets, *one* seller interacts with *one* buyer, and you will take the role of a *buyer* throughout the experiment. You will be randomly matched with a seller in each market. The buyer and the seller remain anonymous to each other at all times. Once a market is closed, another market will open up in which you will be matched with another anonymous seller. The experiment ends after you have participated in 10 markets.

These 10 markets are divided into two sets of 5 markets each. After the first 5 markets have been played, the details of the decisions you must make will change and the remaining 5 markets will work differently from the first 5 markets. The following instructions will explain how the markets work for one of these two sets of 5 markets each. If you have not played 5 markets previously, then the following instructions will describe the first 5 markets. After they have been played, you will receive a new set of instructions for the remaining 5 markets. If you have already played 5 markets, then the following instructions will specify the last 5 markets.

We now describe the working of the 5 markets, your role and the decisions you must make, and the payment you will obtain.

Each market lasts for 10 periods. **In each period, the seller is in possession of a virtual good that he/she can sell to you for the corresponding period at no cost. You can thus buy the good up to 10 times.** At the beginning of each market, you are informed about the per-period value you assign to the virtual good, being either 100 points or 50 points. This value remains the same for all periods of the corresponding market being open. It is commonly known that 60 percent of all buyers assign the high value of 100

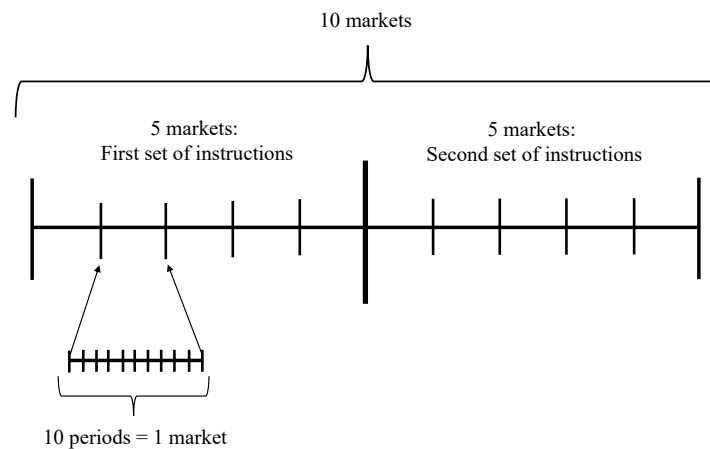


Figure 15: General structure of the experiment

points to the good. The remaining 40 percent of all buyers assign the low value of 50 points.

When entering a market, the seller does not know whether you are a high-value or a low-value buyer. When you buy the good in a given period, you will obtain your value of the good in that period only. You will thus decide in each period anew whether to buy the good or not until the market closes.

You may decide to buy the good in any of the 10 periods independent of whether you have bought the good in a previous period or not. When the good is sold, you pay the corresponding price set by the seller and the market moves to the subsequent period. After all 10 periods for which the market is open have been played, the good becomes valueless to you.

The seller must choose the prices at which to sell his/her good while the market is open. **In each of the 10 periods, the seller will be requested to set the price for that period.** As a buyer you may then decide whether to buy the good for the corresponding period and pay the price effective in that period or to reject the offer. You make this choice by selecting your reaction in an answer field as depicted in Figure 16

Your decision in round 1

The seller set a price of 50 points.

Do you accept or reject?

☐ Accept

☐ Reject

Next

Figure 16: Accepting or rejecting the price set by the seller

In each period of the market you will decide whether to buy the good at the price effective in the current period or not. **Once you have made your decision, the market moves to the next period with the seller choosing the price for the subsequent period.** You may then again choose whether to buy the good or not. This is repeated until all 10 periods have been played. Note that if you buy the good at a price greater than your per-period value, you will make a loss. However, if you buy the good at a price lower than your per-period value, you will make a gain.

You will receive a minimum amount of CHF 20 in any case. In addition, the computer will select one of the 10 markets you participated in at random. This market will be relevant for determining the additional amount you receive on top of your participation fee. If the selected market is one of the 5 markets described in these instructions, then your additional payment will be determined as follows. If you bought the good at least once during the 10 periods of the selected market being open, the differences between the price paid and your value for the good will be summed up over all the periods of the selected market in which you chose to purchase. You will then receive this sum at an exchange rate of 20 : 1 on top of the CHF 20. For example, if you were a buyer who values the good at 100 points and bought the good twice at a price of 80 and twice at a price of 60 in the selected market, you will earn an additional CHF 6. If you did not buy the good at least once in the selected market, you will simply receive the minimum amount of CHF 20.