

## Instructions

Welcome to this experiment in economic decision-making. Please read these instructions carefully.

At the beginning of this session you will be randomly assigned a type as an employer, an unskilled worker or a skilled worker. Your type will remain constant for the duration of the session. In addition to learning your type, you will also learn your hourly cost of supplying labor effort if you are a worker or the amount you earn per hour from hiring each type of worker if you are an employer. Let us denote workers' cost of labor supply by  $C$  and the benefit gained by employers from employing labor by  $B$ .

You will participate in a number of rounds. Each round consists of two labor markets. First the unskilled labor market opens. When that market is concluded then the skilled labor market opens. When that market is concluded, the round is over and depending on the time available a new round will then begin.

In each market, the workers of that market (unskilled or skilled) meet with employers who operate in both markets in an attempt to agree on employment and an hourly wage. Workers earn money according to the difference between the hourly wage they agree to accept from an employer,  $W$ , and their hourly cost of working,  $C$ . That is, the worker's earnings per round are  $W - C$ . Employers earn money according to the difference between the benefit to them of hiring a worker and the wage they agree to pay that worker,  $B - W$ .

Employers can hire at most one unskilled worker and one skilled worker to work for one hour per round. Workers can contract only in the unskilled or skilled labor market according to their type and can only contract with one employer to work for one hour per round.

The experimenter will announce when each market is open. Then, the unskilled or skilled workers and employers will meet together in a location of the room calling out offers to work or offers of employment. For instance if you are an unskilled worker you might say: I am willing to work for \$6.50 per hour. If you are an employer you may state that you are willing to hire skilled labor at \$15 per hour.

If an employer and worker agree on a wage and employment then the pair should come to the front of the room and indicate to the experimenter that they have an agreement. Specifically, they should state the ID number of the employer and the ID letter of the worker and the hourly wage they have agreed to. This information will be written on the board for all to see. Once an agreement has been reached, the pair agreeing to employment terms can sit down and should calculate their earnings for the round using the attached earnings sheet.

There is no requirement that employers always hire the same workers or that workers always contract to work for the same firm. All employment is by mutual agreement of the worker and the employer.

If you are a worker and do not get hired to work in a round, your payoff for that round is zero. Similarly, if you are an employer and you do not hire a certain type of worker, your payoff from employing that labor type for the round is also 0.

**Questions?** Now is the time for questions.

