

Technical Appendix to

DO LABOUR MARKET CONDITIONS AFFECT GIFT EXCHANGE? SOME EXPERIMENTAL EVIDENCE

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Instructions for an ESF Session (Translation from Spanish)

(The first part of the instructions was read aloud while all the participants were in one room. The second and third part of the instructions were read separately to employers and employees in their corresponding rooms. In both rooms we went through the three exercises on the blackboard.)

1. General Information

You are about to participate in a study about the labour market. If you read these instructions carefully you may earn a considerable amount of money. During the experiment your earnings will be calculated in 'PESOS'. At the end of the experiment PESOS will be converted into pesetas at the rate of: 1 PESO = 5 PESETAS.

In addition you will receive 500 pesetas for showing-up for the experiment. At the end of the experiment your earnings will be paid to you in cash.

In a moment, each of the 20 participants will be randomly assigned to one of two groups: 8 will be 'employees' and 12 will be 'employers'.

In the experiment there will be several periods. In total there will be 10 periods. Your total earnings for your participation in the experiment will be the sum of your earnings in each of the 10 periods.

In each period you will participate in a labour market. Each labour market will have two stages:

Stage 1: In the first stage the employers will make decisions: they will be able to make 'wage offers' to the employees. Employees will be able to accept these offers. After 5 minutes the first stage will be over. At that moment all those wage offers that have not been accepted will be randomly assigned to some of the employees who have not accepted any wage offer. Then stage 2 will begin.

Stage 2: In the second stage, each of the employees who have accepted a wage offer will make a decision: he/she will choose a 'quantity of labour'.

Before the experiment starts we will give you a decision sheet on which you will register your decisions in each period. You will also register the decision of the person in the other group with whom you have entered into a relation in the period. After that you will calculate your earnings.

2. How Does The Market Work?

At the beginning of each period the labour market will open. In the first stage of the market the employers will be able to make wage offers to the employees.

We will write the wage offers on the blackboards of both the employer and the employee room as they are made. In total employers and employees will have 5 minutes to trade. Each employer will be able to make more than one offer, but each new offer will have to be larger than the highest offer that has not yet been accepted.

If an employee accepts a wage offer he/she establishes a 'labour contract' with the employer who has made the offer. Any employee can establish a wage contract with any employer and any employer can 'hire' any employee. However, if an employer and an employee have closed a labour contract these participants will not be able to establish any other contract in the period.

When an employee accepts a wage offer by an employer, both should immediately register this wage on their decision sheets.

No employee will know with which employer he/she has closed a contract, and no employer will know the employee.

After 5 minutes the second stage will begin. At that moment each employee who has accepted a wage will have to decide which amount he/she wants to work. Then we will communicate the amount of work to the employer with which he/she has entered into a contract for the period. No other employee and no other employer will be informed about the chosen amount of work.

3. How To Calculate Your Earnings For The Period?

A wage and an amount of work are transformed into earnings for the employer and the employee who have closed a contract in the period. For the employer wages become a cost and the amount of work becomes a gain. For the employee the wage becomes a gain and the amount of work becomes a cost.

The employer will choose a wage between 0 and 10 and the employee will choose an amount of work between 0 and 10.

The earnings (in pesos) for a period of an employee and of an employer who are matched will be determined in the following way:

$$\text{Earnings of the employer} = 10 - \text{wage} + 5 \times \text{quantity of work.}$$

The higher the quantity of work the higher will be the earnings of the employer and the higher the wage the lower will be the earnings of the employer.

$$\text{Earnings of the employee} = 10 - \text{quantity of work} + 5 \times \text{wage.}$$

The higher the quantity of work the lower will be the earnings of the employee and the higher the wage the higher will be the earnings of the employee.

An employer that has not made an offer in a period will obtain earnings of 10 pesos. An employer that has made an offer but has not entered into a relation with an employee will obtain earnings of 10 pesos. An employee that has not accepted any offer may be randomly assigned to one of the wage offers that have not been accepted. If there is no wage offer to which you can be assigned, the employee will earn 10 pesos.

Are there any questions?

During the experiment you will not be allowed to talk or communicate with the other participants. If you have a question, please, raise your hand and one of us will come to your desk to answer it.

Now please take one of these pieces of paper. If on the paper you see a '1', please follow our signs for moving to another room. If on the paper you see a '2', please stay in this room and follow our indications.

Instructions and Exercises for the Employers.

An employer who wishes to make a wage offer should raise his/her hand. Once one of us has given an indication that he/she can talk, he/she will state his/her employer number and the wage offer. Right after that he/she should register the wage on the decision sheet.

Now we are going to do some exercises. Please, use the examples to calculate earnings that we gave to you earlier.

- 1. Let us suppose that you, being able to choose wages between 0 and 10, have made a ‘wage offer’ of 8 pesos which has been accepted by an employee and that in the second stage of the period the employee chooses a “quantity of work” of 5.
What will be your earnings and the earnings of the employee with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employee = pesos.

- 2. Let us suppose that you, being able to choose wages between 0 and 10, have made a wage offer of 3 pesos which has been accepted by an employee and that in the second stage of the period the employee chooses a quantity of work of 6.
What will be your earnings and the earnings of the employee with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employee = pesos.

- 3. Let us suppose again that you, being able to choose wages between 0 and 10, have made a wage offer of 3. However, let us now suppose that in the second stage of the period the employee chooses a quantity of work of 0.
What will be your earnings and the earnings of the employee with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employee = pesos.

Instructions and Exercises for the Employees.

An employee who wishes to accept a wage offer that has been made should raise his/her hand. Once someone has given an indication that he/she can talk, he/she will announce his/her employee number and state which wage offer he /she accepts. Right after that he/she should register the accepted wage on the decision sheet.

Now we are going to do some exercises. Please, use the examples to calculate earnings that we gave to you earlier.

1. Let us suppose that an employer, being able to choose wages between 0 and 10, has made a 'wage offer' of 8 pesos which you have accepted and that in the second stage of the period you choose a 'quantity of work' of 5.
What will be your earnings and the earnings of the employer with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employer = pesos.

2. Let us suppose that an employer, being able to choose wages between 0 and 10, has made a wage offer of 3 pesos which you have accepted and that in the second stage of the period you choose a quantity of work of 6.
What will be your earnings and the earnings of the employer with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employer = pesos.

3. Let us suppose again that an employer, being able to choose wages between 0 and 10, has made a wage offer of 3 which you have accepted. However, let us now suppose that in the second stage of the period you choose a quantity of work of 0.
What will be your earnings and the earnings of the employee with which you have closed a contract for the period?

My earnings = pesos.

Earnings of the employer = pesos.