

Journal Exercise

Due: September 17, 2009 At Start of Class

The purpose of this exercise is for you to use demand and supply theory to interpret the results of the market simulation that took place in class on September 10 (Class 6).

Simulation Overview

Each player was assigned to the role of either BUYER or SELLER. Buyers and sellers received their instruction through authorization slips. The buyer slip said: “You are authorized to buy one box of computer chips. Pay as little as possible. If you pay more than ____ per box, you lose money”. The seller slip said: “You are authorized to sell one box of computer chips for as much as possible. If you accept less than _____ per box, you lose money”.

The following table gives the distribution of buyer and seller prices that were printed on the buyer and seller slips

Prices	Buyer	Seller
\$5.10	4	2
\$4.90	6	2
\$4.70	6	2
\$4.50	4	2
\$4.30	4	4
\$4.10	2	4
\$3.90	2	6
\$3.70	2	6
\$3.50	2	4

Each player remained a buyer and seller for all four rounds of the game. Each player was told to maximize profit and was allowed to make multiple transactions in a round. The profit of a transaction for a buyer was computed as authorization price minus transaction price. The profit of a transaction for a seller was computed as transaction price minus authorization price.

Data

You will find on the course web page a table that reports the transaction prices that were achieved in each round of the simulation. Transactions were allowed only in increments of \$0.10.

Assignment

Write an essay in your Course Journal in which you evaluate the results of the simulation. In the essay you should answer several questions and provide support for each of your answers.

- What does economic theory predict to be the equilibrium price of a box of computer chips? Explain in detail and support your explanation with an appropriate graph.
- Do the results of the simulation support or contradict the prediction of economic theory? Explain in detail.
- How would Adam Smith use the concept of the “Invisible Hand” to explain the results of the simulation?