In this exercise, you will compete in teams of three. You are welcome to choose your partners in advance, just make sure you are sitting together. Each team is a potential customer and a potential restaurant owner. The product that restaurants sell is "meals". Each team will record its restaurant sales and customer purchases on an Exercise Record form that will be distributed in class.

The exercise will take place over multiple time periods referred to as "days". Several days will transpire during one class period. At the beginning of each day, each team in the class must decide whether or not to open a restaurant. A representative from each team that chooses to open a restaurant will take a place at the chalkboard where he or she will post prices for meals.

Each day will be divided into 4 rounds, each lasting 30-45 seconds. The price set at the beginning of a round must be honored until the next round begins. During each round, customers can decide to buy a meal at any restaurant. No negotiation is allowed. You must pay the posted price at the restaurant you choose. Every restaurant has a daily capacity of 3 customers. If a team buys a meal from its own restaurant, one of the three slots is used up.

It costs $90 to open a restaurant for the day. Meals cost $105 each. This cost applies to outside customers as well as the owner. For example, if only one customer is served, the restaurant's cost that day is $195; if 3 customers are served, the cost that day is $405; if no customers are served, the cost that day is $90.

Each team will be assigned an ID number and a "meal value." Possible meal values are 125, 140, 145, and 150. The exact number of teams with each value will be provided in the Competition Exercise Worksheet. Each team can buy at most one meal each day. You do not need to buy a meal.

When a customer patronizes a restaurant, the owner records the customer's ID number and the price paid on the Exercise Record form. Daily restaurant profit equals meal revenues minus total restaurant costs.

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1This exercise is based on Experiment 8 in *Experiments with Economic Principles* by T. Bergstrom and J. Miller, McGraw-Hill, 1997.
The customer also records the transaction on its form. Your meal profit as a customer equals your meal value minus the price paid for the meal. If you do not buy a meal, your meal profit is zero.

At the end of a day, all restaurants are closed. At the beginning of the next day, each team again has the chance to open a restaurant. All costs and meal values stay the same. You only pay the $90 restaurant fee on days when you open a restaurant.

**Summary Timeline of Daily Events.**

*Beginning of the day:* Each team decides whether or not to open a restaurant. Choices are made sequentially. I will start with a different team each day.

*Round 1:* Restaurant owners post meal prices. Each team may purchase a meal from the restaurant of its choice if space is available.

*Round 2:* Restaurant owners can change their prices. Any customers who have not yet purchased a meal may do so at the new prices.

*Round 3:* Restaurant owners can again change prices.

*Round 4:* Restaurant owners can again change prices. This is the last round of the day.

*Beginning of the next day:* Each team again decides whether or not to open a restaurant. Your previous choices have no effect on your costs or your current ability to open a restaurant.

*Rounds:* The process is identical to that from the first day.