

APPENDIX

1. Instructions

This is an experiment in the economics of market decision making. The National Science Foundation and other funding agencies have provided funds for the conduct of this research. The instructions are simple. If you follow them carefully and make good decisions you may earn a CONSIDERABLE AMOUNT OF MONEY which will be PAID TO YOU IN CASH at the end of the experiment.

Your earnings in this experiment will depend on the choices you and another person make. This other person, known as “the other participant,” is randomly paired with you. You are paired with this person for only one choice period. After choices are made for this period and earnings are recorded, you will be paired with a different person. The identities of the other participants will never be revealed, nor will they ever know who you are.

During a choice period you will be labeled as an I or an E participant. For half of the choice periods you will be I, and for the other half you will be E. Both you and the other participant will at the same time choose a value from a table consisting of rows and columns. The two selected values determine the payment made to you and the other participant. At the beginning of each choice period person I selects the tables from which both the I and E people choose. At times person I must pay for this choice. The tables are not necessarily the same for each participant, so there may be one for the E person and a different one for the I person. There are three sets of tables from which the I person may choose, they are labeled as sets A, B, and C. Whenever you make a choice from your table you always will know the table from which the other person chooses.

For every table, the values you may select are written down the left side of the table and are row values. You will always pick a row value. The value selected by the other participant is written across the top of your table. He or she will always pick the column value for your table. The intersection of the row and column value determines your earnings from the table for that period. After recording your earnings on a record sheet you will be paired with someone else, and you may or may not be changed from E to I or visa versa.

Earnings are recorded in a fictitious currency called tokens. At the end of the experiment tokens are redeemed for cash at the exchange rate of 1000 tokens = \$1.00. All earnings will be paid to you in cash at the end of the experiment. To begin, you will be given an initial balance of 2,000 tokens. You may keep this money plus any you earn. However, earnings can be negative in a choice period.

A sample pair of tables for person I and person E is provided on the next page. In the experiment person I will have picked such a pair of tables. The tables are different, although they need not be. The top table shows person I's earnings and the bottom one person E's earnings. Each participant, for their table, makes a row choice. The choice can be 0 through 9. Suppose person I picks 4 and person E picks 6, then in the top table person I has earnings at the intersection of row 4 and column 6; they would be 520. Person E has earnings in his or her table at the intersections of row 6 and column 4; the table shows that 250 is earned. Notice that if E has chosen 9 and person I had picked 8, earnings for person E would be -130. Earnings can be negative.

During each period in the experiment only one row choice is made. After everyone has made their choice the computer calculates earnings. Everyone must record their choice and earnings on a record sheet. A sample record sheet is provided at the end. In every period you

are randomly paired with a different person and told to be an E or I participant. Under the column labeled “Sample 1” the participant is an I person; he or she chooses from an I table. All participants begin with a starting balance of 2,000. Rows (4) and (5) respectively show how much person I pays for choosing the tables and the adjustment to his or her balance. As shown no payment is made in this sample. On the table, 4 is chosen, while person E on the E table chooses 6. These choices are recorded on rows (6) and (7) of the record sheet. (The computer will inform you of the other participant’s choice.) Earnings at the intersection of row 4 and column 6 on the I table are 520. These earnings are added to the balance to yield an ending balance in row (9), of 2,520.

In column “Sample 2” the person is made the E participant. On the E table the row choice is 9, the column choice is by I is 8, and earnings are –130. The balance in row (7) fall to 2,390.

An example of the information that will appear on your terminal screen during a choice period is now presented. The numbers shown are based on the I person picking 4 and the E person choosing 6 on the sample table. The time period is 1 and the participant number is 1. When the I person is choosing the tables that determine earnings the following messages appear on the screen:

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THIS IS PERIOD      1
Please enter your choice of tables (A, B, or C). [A]
This is the set you have selected, is it correct?[A]
If correct enter YES otherwise enter NO. [YES]
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Record this information and type YES to continue.

SAMPLE PAYMENT TABLES FOR
PERSON I AND PERSON E

Payment Table for I

		Person E's Choice									
		0	1	2	3	4	5	6	7	8	9
Person I's Choice	0	00	00	00	00	00	00	00	00	00	00
	1	650	525	500	475	450	425	400	375	350	325
	2	750	600	570	540	510	480	450	420	390	360
	3	840	665	630	595	560	525	490	455	420	385
	4	920	720	680	640	600	560	520	480	440	400
	5	990	765	720	675	630	585	540	495	450	405
	6	1050	800	750	700	650	600	550	500	450	400
	7	1100	825	770	715	660	605	550	495	440	385
	8	1140	840	780	720	660	600	540	480	420	360
	9	1170	845	780	715	650	585	520	455	390	325

Payment Table for E

		Person I's Choice									
		0	1	2	3	4	5	6	7	8	9
Person E's Choice	0	00	00	00	00	00	00	00	00	00	00
	1	450	325	300	275	250	225	200	175	150	125
	2	510	360	330	300	270	240	210	180	150	120
	3	560	385	350	315	280	245	210	175	140	105
	4	600	400	360	320	280	240	200	160	120	80
	5	630	405	360	315	270	225	180	135	90	45
	6	650	400	350	300	250	200	150	100	50	00
	7	660	385	330	275	220	165	110	55	00	-55
	8	660	360	300	240	180	120	60	00	-60	-120
	9	650	325	260	195	130	65	00	-65	-130	-195

When the I person is making a choice on the table the following messages appear:

Please enter the value you have selected from the I table.

This is the value you have selected, is it correct? [4]

If correct enter YES otherwise enter NO. [YES]

A similar message appears for those making a choice from the E table.

The table selected is A (or B or C).

Please enter the value you have selected from the E table. [6]

This is the value you have selected, is it correct? [YES]

If correct, enter YES, otherwise, enter NO.

During the time all of the other subjects are making their choices, the screen will have the message “We are waiting for other participant to enter their choice.” When all choices are typed into

the computer, the screen will show the following results for the I participants:

This is the value you selected. [4]

The option with your table is [A,B, or C]

You are Person I

Your		Other Person's	
<u>Choice</u>	<u>Earnings</u>	<u>Choice</u>	<u>Earnings</u>
4	520	6	250

Please record this information on your record sheets. When you have recorded all the information, enter YES to continue.

For those choosing from the E table, the screen provides the following information:

This is the value you have selected [6]

The option with your table is [A,B, or C]

You are Person E

Your		Other Person's	
<u>Choice</u>	<u>Earnings</u>	<u>Choice</u>	<u>Earnings</u>
6	250	4	520

Please record this information on your record sheets. When you have recorded all information, enter YES to continue.

Are there any questions about this procedure?

SUMMARY

1. At the beginning of a choice period you will be randomly paired with another person. The computer will make one person E and one I. I picks the payment tables from which each participant chooses. I may pay a fee for this choice.
2. Each period you must select a row value from your Payment Table.
3. Your earnings from the table will depend on the value you choose and what the other person chooses.
4. The payment you receive from each table can be found at the intersection of the row value you choose and column value chosen by the other participant.

Several practiced sessions will be conducted to further acquaint you with the experimental procedure.

One of the experimenters will act as the other participant for everyone.

If you look at you screen you will see the following message:

Welcome! please be seated and wait for you instructions.

When you understand all the instructions, enter YES so we may begin.

Anytime you are asked to enter information into the computer you will do so by typing what you want to enter and then hitting the "ENTER" key. Words should always be in capital letter. The "ENTER" key is dark grey and is located at the right side of you keyboard beside the

quotation marks (‘,’) and the right bracket keys (]). Now enter ‘YES’ so that we may begin.

You are now asked to enter your name. After you have typed in your name and hit the

“ENTER” key the following message will appear:

This is the name you have entered. If it is correct please enter YES, if incorrect NO.

Notice that you are given an opportunity to change the information that you have entered. This will allow you to correct any typing errors. If you are satisfied with the information you have entered, enter ‘YES’ and hit the “ENTER” key. You will be given an opportunity to change every entry in a similar manner.

After you are satisfied with you name as entered, enter ‘YES’. Now you will be asked for your social security number. REMEMBER THAT WHENEVER YOU ENTER ANY INFORMATION INTO THE COMPUTER YOU MUST ALWAYS HIT THE “ENTER” KEY AFTER TYPING IN YOUR INFORMAITON. If you do not hit the “ENTER” key the computer will not receive your information.

Your identity will remain confidential and will not be used for any purpose other than to account for our expenditures to the funding agencies. Please do not speak to anyone during the experiment. This is important to the validity of the study and will not be tolerated.