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# WELCOME TO THE EXPERIMENT

Thanks for participating! This experiment will take about 90 minutes to complete, and your earnings from the experiment will be paid to you in cash at the end of today's session.

Your identity will never be recorded. Neither the experiment managers nor the other participants will ever be able to connect you to your decisions or your earnings. Your decisions and earnings are private.

## The Interaction

In this experiment, you will complete a series of 10 interactions. The procedure for each interaction is the same. We describe one interaction below.

In each interaction, you will be paired with one other person. One person is called RED and the other person is called BLUE. RED starts with 100 cents and BLUE starts with 100 cents. There are five stages in the interaction.

### Preliminary Stage

In the preliminary stage, BLUE makes a decision and RED waits. BLUE decides if, in the 3rd stage, RED can choose the Default Payoffs option of 100 cents for RED and 100 cents for BLUE. If BLUE decides that RED can choose the Default Payoffs option, then the interaction continues through the 3rd stage. If BLUE decides that RED cannot choose the Default Payoffs option, then the interaction ends after the 2nd stage.

Please read on. The decision in this stage will become clear when the other stages are explained.

### First Stage

In the 1st stage, RED makes a decision and BLUE waits. RED decides how many of RED's 100 cents to pass to BLUE. RED can pass *any amount* between 0 and 100 cents to BLUE. Each cent passed by RED is multiplied by 3 before BLUE receives it. So, if RED passes 50, then BLUE receives 150 cents.

**Second Stage**

In the 2nd stage, BLUE makes a decision and RED waits. After BLUE sees how much money RED passed to him, he decides how much of the money passed to him by RED he would like to pass back. BLUE can pass *any amount* back to RED between 0 cents and the total amount received from RED. So, in our example above, BLUE decides how much of the 150 cents he received from RED he would like to pass back to RED. RED is then told how much money is passed back by BLUE.

**Third Stage**

This stage will occur *only if*, in the Preliminary Stage, BLUE chose to give RED the Default Payoffs option. If BLUE chose not to give RED this option, then this stage will be skipped.

In the 3rd stage, RED makes a decision and BLUE waits. After RED sees how much money BLUE sent back, RED now decides to either keep the current payoffs just determined by RED and BLUE, or to *request* the Default Payoffs option. If RED requests the Default Payoffs option, and BLUE approves the payoff option in the final stage, then RED receives 100 cents and BLUE receives 100 cents for that interaction.

**Final Stage**

The final stage is reached *only if* (a) in the Preliminary Stage BLUE chose to give RED the Default Payoffs Option, and (b) in the 3rd stage, RED requested the Default Payoffs option. In this final stage, BLUE decides whether the request for the payoff options will be approved.

If the RED's Request for the Default Payoffs is approved, then RED receives 100 cents and BLUE receives 100 cents for that interaction. However, if RED's request for the Default Payoffs is declined, then each player gets the payoffs as they were determined after the 2nd stage, as described above.

Notice: Simply because BLUE gave RED the Default Payoffs option in the preliminary stage does not require BLUE to approve all requests by RED for the Default Payoffs in the final stage.

The interaction is now complete, and both RED and BLUE are told how much money they made for that interaction. After RED and BLUE see their earnings for that interaction, each starts a new interaction with a new person.

## Your Role

You will be assigned either the role of RED or the role of BLUE. Your role will be revealed to you at the start of the experiment, and you will keep the same role for all 10 interactions. But, in each interaction, you will play with a different person. This means that you will *never* play with the same person twice. Each interaction will be with a new person.

## Your Earnings

You will be paid the amount of money you earn from all 10 interactions. As you can see, the amount of money you earn from each interaction will depend on your decisions and the decisions of your partner in the interaction. The computer will keep track of your earnings in your Earnings Account.

## Examples

We will now go through two examples to make sure you understand the experiment. We will use the screens you will see during the game.

### Example

Suppose BLUE chooses this:

I choose to: ○ Give RED the Default Payoffs option

● Not give RED the Default Payoffs option

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

Suppose RED chooses this:

Reminder: Your partner has NOT given you the option of using the default payments.

**Stage 1:** You are RED. You start with 100 cents.

Every cent that you pass yields 3 cents for BLUE.

I choose to *Pass* 40 to BLUE, and *Hold* 60 for myself.

Suppose BLUE chooses this:

**Stage 2:** You are BLUE. You start with 100 cents.

In Stage 1, RED chose to Pass 40 cents to you and Hold 60 cents for RED.

This means that you have 3 x 40 = **120** cents available for passing back to RED and holding for yourself. You may divide this amount however you wish.

Every cent that you pass yields 1 cent for RED.

I choose to *Pass* 40 to RED, and *Hold* 80 for myself.

And finally, suppose that RED chooses this:

| | |
|---|---|
| BLUE's Choice: | Not give RED the Default Payoffs option |
| RED's Choice: | Pass 40 to BLUE and Hold 60 for myself |
| BLUE's Choice: | Pass 40 to RED and Hold 80 for myself |
| | |
| RED's Earnings: | 100 - 40 + 40 = 100 cents |
| BLUE's Earnings: | 100 + (3 x 40) - 40 = 180 cents |

In the preliminary stage, BLUE chose not to give you the Default Payoffs option.

Please continue to see the results of this round.

Then the results of their decisions would look like this:

BLUE's Choice: Not give RED the Default Payoffs option
RED's Choice: Pass 40 to BLUE and Hold 60 for myself
BLUE's Choice: Pass 40 to RED and Hold 80 for myself
RED's Choice: Keep the Payoffs

RED's Earnings: 100 cents
BLUE's Earnings: 180 cents

History:

| Interaction | BLUE Gives Default Option? | RED Passes A | BLUE Passes B | RED Chooses Default? | RED Earns 100 - A + B or 1 | BLUE Earns 100 + (3 x A) - B or 1 |
|---|---|---|---|---|---|---|
| 1 | no | 40 | 40 | -- | 100 | 180 |
| **Total** | | | | | 100 cents | 180 cents |

## Things to Remember

- You will complete a series of 10 interactions. In each interaction, you will play with a completely new person.
- You will be assigned the role of RED or BLUE. You will keep the same role for all 10 interactions.
- RED starts with 100 cents, and BLUE starts with 100 cents.
- In the Preliminary Stage, BLUE decides whether to give RED the Default Payoffs option in the 3rd stage.
- In the 1st stage, RED can pass up to 100 cents to BLUE and keep the rest.
- Whatever amount RED passes to BLUE is multiplied by 3 when BLUE receives it.
- In the 2nd stage, BLUE can pass back to RED any amount of what was received from RED.
- If BLUE chose to give RED the Default Payoffs option in the Preliminary Stage, then the interaction proceeds to the 3rd stage.
- In the 3rd stage, RED can choose to request the Default Payoffs (100 cents for RED and 100 cents for BLUE) rather than the results from the 2nd stage.
- In the final stage, BLUE chooses whether to approve or decline RED's request for the Default Payments. If BLUE approves the request then both RED and BLUE get 100 cents, but if BLUE declines the request then the players get the results from the 2nd stage.
- Your identity is private throughout the experiment.
- Your earnings will be paid to you in cash at the end of the experiment.

## Quiz

Before beginning the experiment, please complete the following quiz to make sure you understand how the payoffs are calculated.

Quiz Me!

# Quiz

## Question 1

Suppose that BLUE has made this decision:

I choose to:
- (•) Give RED the Default Payoffs option
- ( ) Not give RED the Default Payoffs option

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

Suppose that RED has made this decision:

Reminder: Your partner has given you the option of using the Default Payoffs (100 cents for RED, 100 cents for BLUE).

**Stage 1:** You are RED. You start with 100 cents.

Every cent that you pass yields 3 cents for BLUE.

I choose to *Pass* [60] to BLUE, and *Hold* [40] for myself.

Suppose that BLUE has made this decision:

**Stage 2:** You are BLUE. You start with 100 cents.

In Stage 1, RED chose to Pass 60 cents to you and Hold 40 cents for RED.

This means that you have 3 x 60 = **180** cents available for passing back to RED and holding for yourself. You may divide this amount however you wish.

Every cent that you pass yields 1 cent for RED.

I choose to *Pass* [50] to RED, and *Hold* [130] for myself.

Next, suppose that RED has decided to request the Default Payoffs:

I choose to:
- (•) Request Default Payoffs
- ( ) Not request the Default Payoffs

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

And finally, suppose that BLUE has decided to approve the request for the Default Payoffs:

RED has requested the Default Payffs. Will you approve this request?

I choose to:
- (•) Approve the request for Default Payoffs
- ( ) Decline the request for Default Payoffs

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

In this case, RED would earn [ ] and BLUE would earn [ ].

Check My Answers

# Quiz

## Question 2

Suppose that BLUE has made this decision:

I choose to:
- (●) Give RED the Default Payoffs option
- ( ) Not give RED the Default Payoffs option

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

Suppose that RED has made this decision:

Reminder: Your partner has given you the option of using the Default Payoffs (100 cents for RED, 100 cents for BLUE).

**Stage 1:** You are RED. You start with 100 cents.

Every cent that you pass yields 3 cents for BLUE.

I choose to *Pass* 70 to BLUE, and *Hold* 30 for myself.

Suppose that BLUE has made this decision:

**Stage 2:** You are BLUE. You start with 100 cents.

In Stage 1, RED chose to Pass 70 cents to you and Hold 30 cents for RED.

This means that you have 3 x 70 = **210** cents available for passing back to RED and holding for yourself. You may divide this amount however you wish.

Every cent that you pass yields 1 cent for RED.

I choose to *Pass* 0 to RED, and *Hold* 210 for myself.

And finally, suppose that RED has decided to keep the payoffs from the above interactions.

I choose to:
- ☐ Request Default Payoffs
- ◉ Not request the Default Payoffs

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

In this case, RED would earn [ ] and BLUE would earn [ ].

Check My Answers

# Quiz

## Question 3

Suppose that BLUE has made this decision:

I choose to:
- (●) Give RED the Default Payoffs option
- ( ) Not give RED the Default Payoffs option

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

Suppose that RED has made this decision:

Reminder: Your partner has given you the option of using the Default Payoffs (100 cents for RED, 100 cents for BLUE).

**Stage 1:** You are RED. You start with 100 cents.

Every cent that you pass yields 3 cents for BLUE.

I choose to *Pass* [100] to BLUE, and *Hold* [0] for myself.

Suppose that BLUE has made this decision:

**Stage 2:** You are BLUE. You start with 100 cents.

In Stage 1, RED chose to Pass 100 cents to you and Hold 0 cents for RED.

This means that you have 3 x 100 = **300** cents available for passing back to RED and holding for yourself. You may divide this amount however you wish.

Every cent that you pass yields 1 cent for RED.

I choose to *Pass* [100] to RED, and *Hold* [200] for myself.

Next, suppose that RED has decided to request the Default Payoffs:

I choose to:
- (•) Request Default Payoffs
- ( ) Not request the Default Payoffs

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

And finally, suppose that BLUE has decided to approve the request for the Default Payoffs:

RED has requested the Default Payffs. Will you approve this request?

I choose to:
- (•) Approve the request for Default Payoffs
- ( ) Decline the request for Default Payoffs

Recall that the Default Payoffs are 100 cents for RED and 100 cents for BLUE.

In this case, RED would earn [ ] and BLUE would earn [ ].

Check My Answers

[End of Subjects' Instructions]