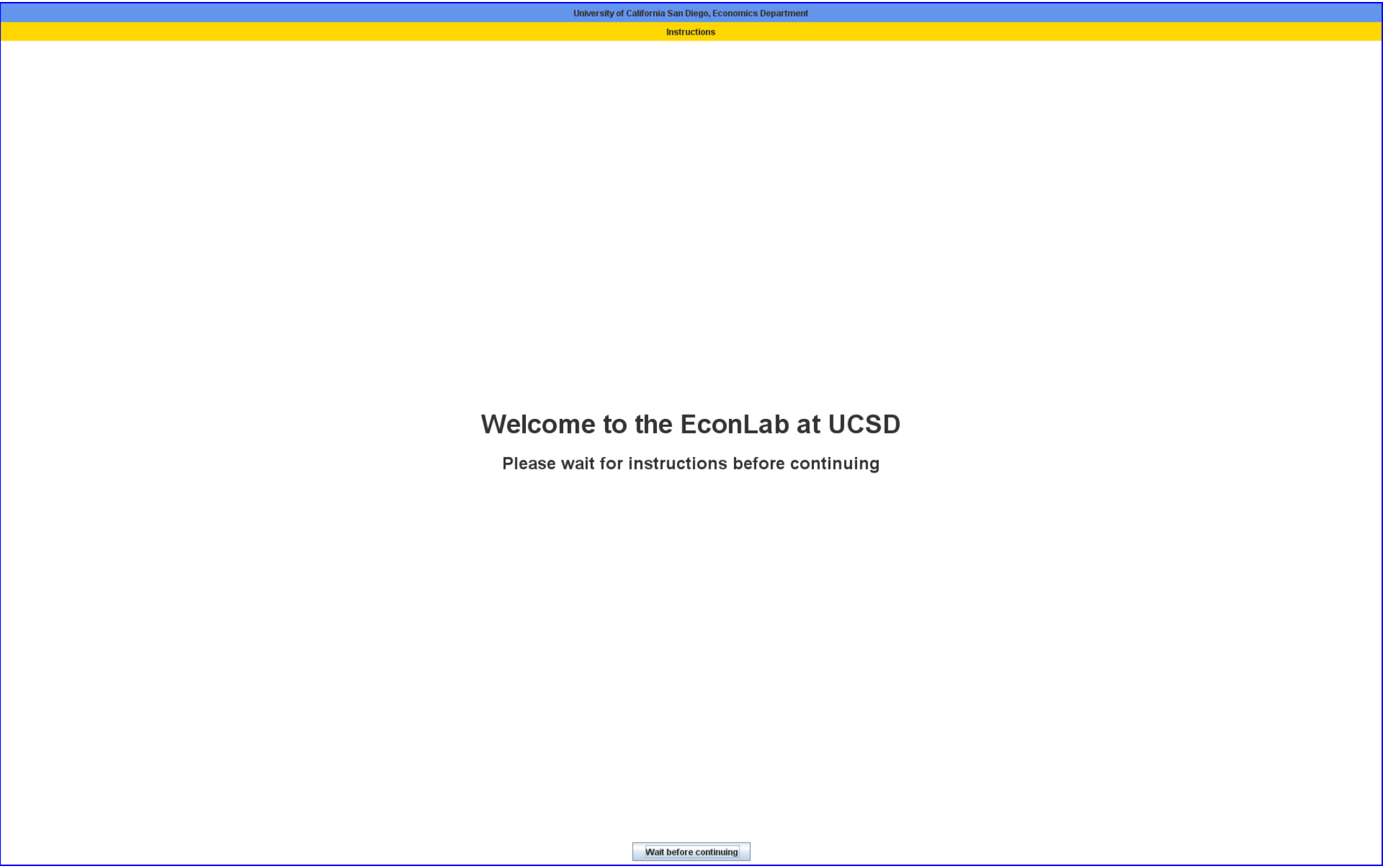
Appendix: Subjects' Instructions



University of California San Diego, Economics Department

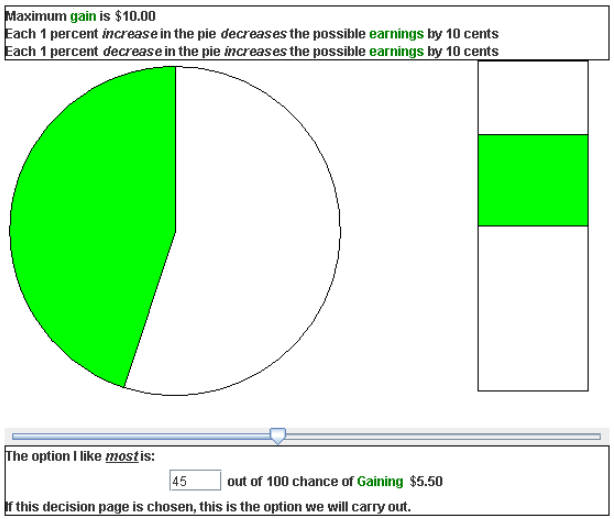
Instructions

Experiment Instructions

We're paying you $20 for participating in this experiment. During the experiment you can either add to this amount, or lose some or all of it. Whether you win more money, or lose, will depend in part on your decisions and in part on chance. We will pay you your earnings in cash at the end. The experiment is set up so that you can't end up owing us money. The stakes for the gambles, and the chances of winning or losing, will vary.

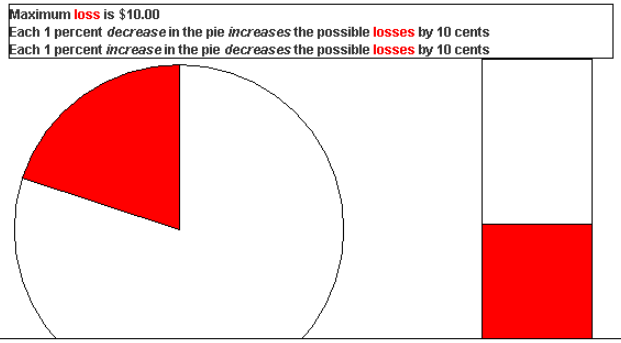
During the experiment we will show you various gambles. The stakes for the gambles, and the chances of winning or losing, will vary.

A gamble might look like this:



This would mean you have a 45 out of 100, or 45% chance of winning $5.50, and a 55% chance of winning nothing.

Some gambles involve losses, like this:



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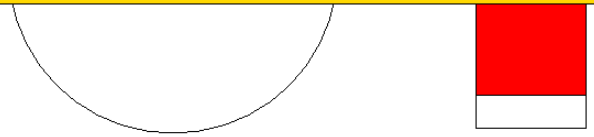


The option I like *least* is:

20 out of 100 chance of Losing $8.00

If this decision page is chosen,
we will randomly chose among the available options *except* this one

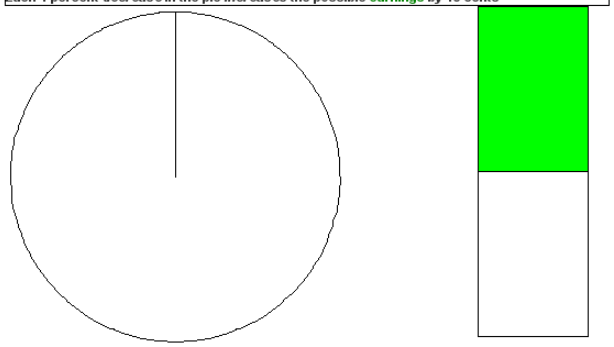
This would mean that you have a 20 in 100, or 20%, chance of losing 8 dollars, and a 80% chance of losing 0 dollars.

In the experiment you will consider many Options of gambles. The gambles will differ according to the amount of money at stake, and the chances of winning or losing that money. The gambles in a given Option will either all be over gains, or all be over losses, there will never be a mixture.

If the gambles in an Option are over gains, you'll need to tell us which gamble in the you like the **most**. If the gambles in an Option are over losses, you'll need to tell us which you like the **least**.

An Option of gambles over *gains* might look like this. Notice, you see all available gambles in the Option by moving the slider bar back and forth -- give it a try!

Maximum gain is $10.00
Each 1 percent *increase* in the pie *decreases* the possible earnings by 10 cents
Each 1 percent *decrease* in the pie *increases* the possible earnings by 10 cents



The option I like *most* is:

0 out of 100 chance of Gaining $10.00

If this decision page is chosen, this is the option we will carry out.

Notice that in this example, every time you try to increase the chance of gaining by 1 percentage point, you reduce the amount you would gain by $0.10. Likewise, each time you increase the amount you can gain by $1, you reduce the amount you gaining it by 10 percentage points (that is 1 divided by 10). In Options over gains, you will chose the gamble you like **most**. An Option of gambles over *losses* might look like this. Again, you see all available gambles in the Option by moving the slider bar back and forth -- give it a try!

Maximum loss is $10.00
Each 1 percent *decrease* in the pie *increases* the possible losses by 16.67 cents
Each 1 percent *increase* in the pie *decreases* the possible losses by 16.67 cents

Continue

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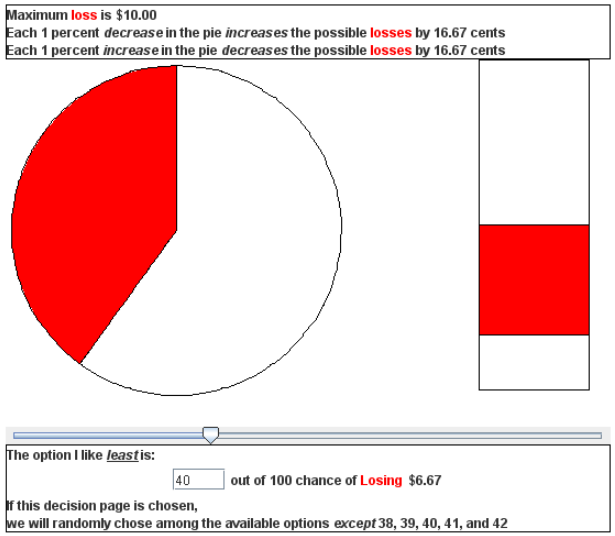
Instructions

Notice that in this example, every time you try to increase the chance of gaining by 1 percentage point, you reduce the amount you would gain by $0.10. Likewise, each time you increase the amount you can gain by $1, you reduce the amount you gaining it by 10 percentage points (that is 1 divided by 10). In Options over gains, you will chose the gamble you like **most**. An Option of gambles over *losses* might look like this. Again, you see all available gambles in the Option by moving the slider bar back and forth -- give it a try!



Notice that in this example, every time you try to increase the chance of losing by 1 percentage point, you reduce the amount you would lose by $0.1667. Likewise, each time you increase the amount you can lose by $1, you reduce the amount you gaining it by 6 percentage points (that is 1 divided by 16.67).

All the gambles that involve losses are undesirable. But some might seem worse than others. We will ask you to carefully examine the gambles, and then select the gamble that you like **least**.

During the experiment, we will show you a series of Options like those above, asking you to select your most or least preferred gamble for each Option.

After you've made all your choices, your earnings will be decided as follows. We will randomly pick one of the Options to be the "Option that counts," by drawing a card from a deck with a card representing each Option. If this Option involves gains, you will play the gamble that you liked most on the Option.

If the Option involves losses, we'll pick the gamble by taking a deck of cards representing all the gambles in the list, removing the card for the gamble you like the least, plus the two gambles above and the two gambles below, and then drawing a card from the remaining deck to indicate the gamble that will be played. For instance, if in the example above you selected "30 out of 100 chance of Losing $8.33", then we would remove all five of these gambles from the deck:

- 28 out of 100 chance of losing $8.67
- 29 out of 100 chance of losing $8.50
- 30 out of 100 change of losing $8.33
- 31 out of 100 chance of losing $8.17
- 32 out of 100 chance of losing $8.00

Once we've picked a gamble, we will randomly pick an *r* from 1 to 100, and that r will determine the outcome of gamble you are playing, as follows:

- If the gamble you picked is over gains, then if *r* is less than the chance of gaining for the gamble you picked, you win the gamble.
- If the gamble you picked is over loses, then if *r* is less than the chance of losing for the gamble that was picked, you lose the gamble.

Since you don't know which Option of gambles we will pick, you should treat each Option as if it is the one that counts, and mark your choice as if you are choosing only from that Option.

Continue

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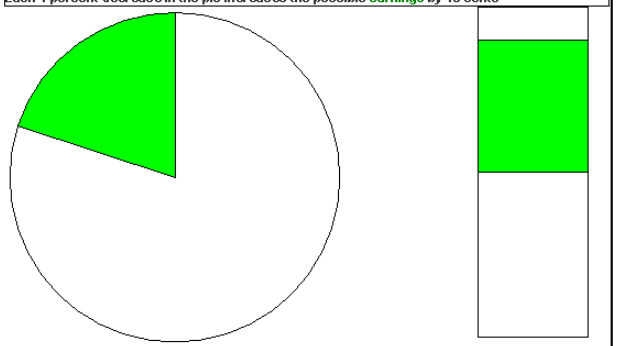
Instructions

Maximum gain is $10.00
Each 1 percent *increase* in the pie *decreases* the possible earnings by 10 cents
Each 1 percent *decrease* in the pie *increases* the possible earnings by 10 cents



The option I like *most* is:

20 out of 100 chance of Gaining $8.00

If this decision page is chosen, this is the option we will carry out.

Suppose we have chosen this Option to be the one that counts, and that you have decided that the gamble you like *most* is a 20 out of 100 chance of gaining $8.00

If **r** turned out to be 10, how much would you get paid? Include the initial $20.

Check Answer

If **r** turned out to be 90, how much would you get paid? Include the initial $20.

Check Answer

Continue to Part 2 | Back

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Instructions

Maximum gain is $10.00
Each 1 percent *increase* in the pie *decreases* the possible earnings by 10 cents
Each 1 percent *decrease* in the pie *increases* the possible earnings by 10 cents

The option I like *most* is:

55 out of 100 chance of Gaining $4.50

If this decision page is chosen, this is the option we will carry out.

Suppose we have chosen this Option to be the one that counts, and that you have decided that the gamble you like *most* is a 55 out of 100 chance of gaining $4.50

If **r** turned out to be 10, how much would you get paid? Include the initial $20.

Check Answer

If **r** turned out to be 90, how much would you get paid? Include the initial $20.

Check Answer

Continue to Part 3 | Back

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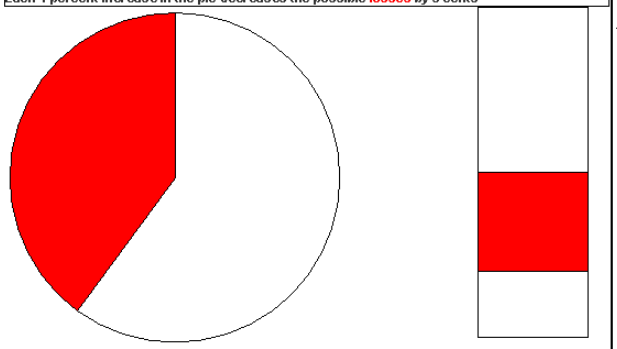
Instructions

Maximum loss is $5.00
Each 1 percent *decrease* in the pie *increases* the possible losses by 5 cents
Each 1 percent *increase* in the pie *decreases* the possible losses by 5 cents



The option I like *least* is:

40 out of 100 chance of Losing $3.00

If this decision page is chosen,
we will randomly chose among the available options *except* this one

Suppose we have chosen this Option to be the one that counts, and that you have decided that the gamble you like *least* is a 40 out of 100 chance of losing $3.00

Which of the following gambles can NOT be randomly picked for you to play?

- 38% chance of losing $3.10
- 25% chance of losing $3.75
- 70% chance of losing $1.50
- 41% chance of losing $2.95
- 43% chance of losing $2.85

Check Answer

Suppose that the gamble we have chosen is a 25% chance of losing $3.75

If **r** turned out to be 10, how much would you get paid? Include the initial $20.

Check Answer

If **r** turned out to be 90, how much would you get paid? Include the initial $20.

Check Answer

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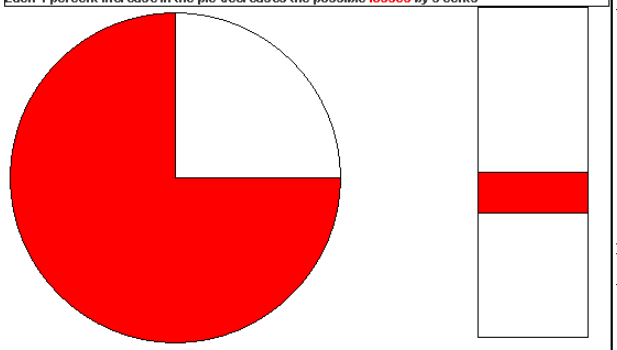
Instructions

Maximum loss is $5.00
Each 1 percent *decrease* in the pie *increases* the possible losses by 5 cents
Each 1 percent *increase* in the pie *decreases* the possible losses by 5 cents



The option I like *least* is:

75 out of 100 chance of Losing $1.25

If this decision page is chosen,
we will randomly chose among the available options *except* this one

Suppose we have chosen this Option to be the one that counts, and that you have decided that the gamble you like *least* is a 75 out of 100 chance of losing $1.25

Which of the following gambles can NOT be randomly picked for you to play?

- [ ] 90% chance of losing $0.50
- [x] 74% chance of losing $1.30
- [x] 77% chance of losing $1.15
- [ ] 70% chance of losing $1.50
- [ ] 72% chance of losing $1.40

Correct!

Suppose that the gamble we have chosen is a 75% chance of losing $1.25

Because you chose to eliminate this gamble from consideration,

we instead chose 90% chance of losing $0.50

If **r** turned out to be 10, how much would you get paid? Include the initial $20.

19.50 Correct!

If **r** turned out to be 90, how much would you get paid? Include the initial $20.

19.50 Correct!

Finished Back