Appendix

*Claim Check Number*_____

INTRODUCTION

Welcome

This is an experiment about decision making. The amount of money you earn will depend on the decisions that you and the other participants make. The entire experiment should take less than an hour, and at the end you will be paid privately and in cash for your decisions. A research foundation has provided the funds for this experiment.

Your Identity

Your identity is secret. You will never be asked to reveal it to anyone during the course of the experiment. Your name will never be recorded by anyone. Neither the experimenters nor the other subjects will be able to link you to any of the decisions you make. In order to keep your decisions private, *please do not reveal your choices to any other participant.*

Claim Check

Attached to the top of this page is a yellow piece of paper with a number on it. This is your Claim Check. Each participant has a different number. We use claim checks to maintain secrecy about your decisions, earnings, and identity. You will present your Claim Check to an assistant at the end of the experiment to receive your cash payment.

Please remove your claim check now, and put it in a safe place.

How you make money

You will make 10 separate decisions in this experiment. For each decision you will be randomly paired with one other participant. Your earnings will depend on the decisions that you and the other participant make.

For each decision you will be randomly paired with a different participant. You will never play against the same participant more than once. In each pair, one participant will be known as the *Proposer*, and one participant will be known as the *Responder*. We will tell you at the start of the experiment whether you will be a Proposer or a Responder. Your role will be the same throughout the experiment.

Your decisions will be tallied by the computer. At the end of the experiment you will receive your cash payment in a sealed envelope so that no one but you knows how much you have earned.

Please do not talk to other participants during the experiment.

This Experiment

The experiment takes place in two stages. In the first stage the *Proposer* proposes a split of $2.40 (240 cents) between the *Proposer* and the *Responder*. When the Proposer has entered the decision into the computer, the computer will randomly match the Proposer with a Responder. The Proposer's choice will be revealed to the Responder. The Responder will then choose to either **increase**, **decrease** or make **no change** to the *Proposer's* earnings. It will cost the *Responder* to change the *Proposer's* earnings, as we will explain below. When the Responders have entered their decisions this round is finished, and the computer calculates the earnings for the two participants. The computer will inform you of the outcome of your decision. No one will be told the decisions or earnings associated with pairs other than their own.

Proposal Stage

If you are a *Proposer,* you will propose an allocation of 240 cents between yourself and the *Responder*. You have to allocate at least 40 cents to the *Responder*. Remember that this proposal may not be the final allocation: the *Responder* is able to either **decrease** or **increase** the *Proposer's* allocation in the second stage, if he or she wants to. Once the *Proposer* has proposed a split of the 240 cents, the *Responder* can adjust *Proposer's Earnings*.

Response Stage

The *Responder* determines how to respond to the proposed allocation of the *Proposer*. There are three basic choices: the Responder can **increase**, **decrease**, or make **no change** to the *Proposer's* earnings. The responder has to pay a cost to adjust the *Proposer's* earnings.

That is the *Responder* must decide to do **one** of the following:

(1) Make **no change** in the *Proposer's* earnings, in which case the *Proposer's* and the *Responder's* payoff are the same as in the proposed allocation.

(2) **Increase** the *Proposer's* earnings, in which case the *Responder's* payoff **decreases** by **1** cent for every **5** cent **increase** in the *Proposer's* earnings.

(3) **Decrease** the *Proposer's* earnings, in which case the *Responder's* payoff **decreases** by **1** for every **5** cent **decrease** in the *Proposer's* earnings.

Note that whether the *Responder* chooses to increase or decrease the *Proposer's* earnings, it costs the *Responder* 1 cent for each 5 cent change that he/she makes to the *Proposer's* payoff. Please see the attached table for samples of the changes that you can make as a responder.

Sample Decisions

We will now go through an example to help you understand the experiment. This example is meant to improve your understanding, and is not intended to guide you toward making any particular decision.

Example 1:
Suppose the Proposer offers to keep 120 cents and give 120 cents to the Responder. In response to this offer the Responder decides to increase the Proposer's payoff by 90 cents. It costs the Responder 1 cent for each 5 cent increase in the Proposer's earnings, hence this decision will cost the Responder 90/5 = 18 cents, and the Responder's earnings are 120-18 = 102 cents ($1.02). The Proposer's earnings are 120 + 90 = 210 cents ($2.10)

Example 2:
Suppose once again that the Proposer offers to keep 120 cents and give 120 cents to the Responder, however the Responder now decides to decrease the Proposer's payoff by 90 cents. It costs the Responder 1 cent for each 5 cent decrease in the proposer's earnings, hence this decision will cost the Responder 90/5 = 18 cents, and the Responder's earnings are 120 - 18 = 102 cents ($1.02). The Proposer's earnings are 120-90 = 30 cents ($0.30)

Example 3:
Finally, suppose the Responder makes no change to the 120 cent offer. In this case the Proposer's earnings are 120 cents, and the Responder's earnings are 120 cents.

A Brief Review of the Experiment

You will be either a *Proposer* or a *Responder*. The *Proposer* makes a proposal to split the 240 cents, allocating a certain number to him or herself and the rest to the *Responder*. The *Responder* then gets a chance to change the *Proposer's* offer. The *Responder* can **increase**, **decrease**, or make **no change** to the *Proposer's* payoff. Every 5 cent change the *Responder* makes to the *Proposer's* allocation reduces the *Responder's* own allocation by 1 cent. The *Responder's* change, if any, is final and determines how much money both people get.

To make sure that you understand these instructions we will now ask you to fill out a brief quiz. Please be sure that the claim check number on your quiz is the same as that on your claim check.