



Welcome to the Economics Study!

This experiment is a study of group and individual investment behavior. The instructions are simple. If you follow them carefully and make good investment decisions you may earn a considerable amount of money.

The experiment will last about an hour and a half.

The Experiment

In this experiment you will make a series of 40 decisions. For each decision you will be assigned to a group of 5 people. What you earn from each decision will depend on what you and the other 4 people in your group decide.

For each decision you will be choosing how to divide 20 tokens between two investment opportunities:

1. THE RED INVESTMENT

Each token you invest in the RED investment will earn you a return of \$0.02.

Example: Suppose you invest 14 tokens in the RED investment, then you would earn \$0.28 from this investment.

Example: Suppose you invest 20 tokens in the RED investment, then you would earn \$0.40 from this investment.

Example: Suppose you invest 0 tokens in the RED investment, then you would earn nothing from this investment.

2. THE BLUE INVESTMENT

What you earn from the BLUE investment will depend on the total number of tokens that you and the other four members of your group invest in the BLUE investment. The more the group invests in the BLUE investment, the more each member of the group earns. The process is best explained by a number of examples.

Example: Suppose that you decided to invest no tokens in the BLUE investment but that the four other members invest a total of 70 tokens. Then your earnings from the BLUE investment would be \$0.70. Everyone else in your group would also earn \$0.70.

Example: Suppose that you invest 15 tokens in the **BLUE** investment and that the four other members of your group invest a total of 70 tokens. This makes a group total of 85 tokens. Your return from the **BLUE** investment would be **\$0.85**. The other four members of the group would also get a return of **\$0.85**.

Example: Suppose that you invest 20 tokens in the **BLUE** investment but that the other four members invest nothing. Then you, and everyone else in the group, would get a return from the **BLUE** investment of **\$0.20**.

As you can see, every token invested in the **BLUE** investment will earn **\$0.01** for every member of the group, not just the person who invests it there. *It does not matter who invests tokens in the **BLUE** investment. Everyone will get a return from every token invested there—whether they invest tokens in the **BLUE** investment or not.*

Investment Decision

Your task is to decide how many of your tokens to invest in the **RED** investment and how many to invest in the **BLUE** investment. You are free to invest some of your tokens in the **RED** investment and some in the **BLUE** investment. Alternatively, you can invest all of them into the **RED** investment or all of them into the **BLUE** investment.

For each decision, you will complete a decision form like the following:

How would you like to divide your 20 tokens between the two investment opportunities?

Tokens in **RED** investment:
 -- Each token earns \$0.02 for you and \$0 for the other group members

Tokens in **BLUE** investment:
 -- Each token earns \$0.01 for you and \$0.01 for the other group members

Stages of Investment

There will be 40 decision rounds in which you will be asked to make investment decisions. At the end of each round, you will be informed of your payoff for that round. After the last round, you will be paid the total of your payoffs from all 40

rounds. You will enter your decisions on the computer, and the computer will keep track of your decisions and earnings.

At the beginning of each round, you will be asked how you would like to divide your tokens between the **RED** investment and the **BLUE** investment. The other four members of your group will be asked to make the same decision, and they will make their decision at the same time as you are making yours. That is, you must make your investment decisions without knowing what the others in your group are deciding. *Do not discuss your decision with any other participant.*

Earnings Statement

Once you and the other four members of your group have made your decisions, you will receive an Earnings Statement for that round, similar to the following:

ROUND 2				
<u>Your Investments:</u>				
<p style="margin-left: 40px;">RED Investment: 3 tokens BLUE Investment: 17 tokens</p>				
<u>Your Earnings For This Round:</u> \$0.91				
<u>Total Tokens In BLUE Investment:</u> 85 tokens.				
Round	A Tokens in RED Investment	B Tokens in BLUE Investment	C Total Tokens in BLUE Investment	(A*\$0.02+C*\$0.01) Your Earnings
1	14	6	70	\$0.98
2	3	17	85	\$0.91
TOTAL				\$1.89

Your Group

The composition of your group will be changing every 8 rounds. The procedure is the following: you will play with the same group of 5 participants for 8 rounds, then you will be reassigned to a new group of 5 participants. You will play with that new group for another 8 rounds, then you will be reassigned to another new group of 5 participants. This pattern will continue until everyone has played 40 rounds. So, in total you will play with 5 different 5-person groups, each for a total of 8 consecutive rounds.

The photos of each member of your group will be displayed on the top of your screen at all times. At the beginning of each 8-round sequence, a new set of photos will appear, corresponding to the members of your new group. So, for example, you will see the photos of your 1st group at the beginning of round 1 and those same photos will remain there until the end of round 8. Then, at the beginning of round 9, the photos of your 2nd group will be displayed and remain there for that 8-round sequence. The procedure will continue until all 40 rounds are complete.

At the end of each round, the photos of all group members will be re-arranged by the number of tokens invested in the **BLUE** investment in that round. The photos will be arranged from highest investment to lowest investment, with the amount of each group member's investment listed below his or her photo.

Your Payoff

When the 40 decision rounds are complete, your total earnings from all 40 rounds will be placed in your payoff envelope. We will put your login number on the outside of the envelope. You will be called one by one to present us with your login number and we will hand you your payoff envelope.

Preparing payoffs will take about 10 minutes.

Good Luck!

LOGIN
