

**SUBJECT #:** \_\_\_\_\_

### **Experiment Instructions**

This is an experiment in the economics of decision making. If you follow these instructions closely and make a careful decision, you can earn money. Please do not communicate with any other student during the experiment.

In today's experiment, you are part of a large group. To start the experiment, we give every participant in your group an "initial balance" of \$20 each. You are free to spend your initial balance in any way that you wish. Once you have read and understood these instructions, you will be asked to divide your \$20 between a "private account" and a "group investment fund". You can put any amount between \$0 and \$20 into either account, but the total of the two accounts must equal \$20. Any money that you deposit in your private account is yours to keep and will be paid to you in cash.

The money you bid to the group investment fund will be combined with the money received from all other members of your group. The combined group fund can purchase 25,000 "shares" at a price of 1 cent each. However, the fund can only purchase either 25,000 shares or none at all. Hence, in order to purchase the shares, the sum of bids made to the investment fund by members of your group must equal or exceed a "group investment cost" of \$250.

If the sum of all bids made by members of your group is below the investment cost of \$250, no investment will be made. On the other hand, if the sum of bids equals or exceeds the investment cost, the investment will be made and each member of your group will receive a personal payoff from the investment. The payoff you could receive is indicated in Table 1 of the attached "Information and Decision Sheet". Look at your Information and Decision Sheet now to see what your personal payoff would be if the group investment cost is reached. Your personal payoff depends only on the sum of bids to the group fund.

Note that you have been randomly assigned to your personal payoff per share and that the personal payoffs of other members of your group may differ from yours.

Your earnings for the experiment depend on how you choose to divide your initial balance of \$20 between your private account and the group fund, and on whether or not the sum of bids to the group fund equals or exceeds the investment cost of \$250. There are three possible outcomes:

**FIRST POSSIBLE OUTCOME: the sum of bids to the group fund is LESS than \$250.** In this case, the investment in shares cannot be made and **your bid to the group fund will be refunded.** This is a **Money-Back-Guarantee:** if the investment cost is not reached by the group, the full amount of your bid to the group fund will be refunded to you and deposited in your private account. Therefore, if the sum of bids is lower than \$250, your earnings for the experiment will be equal to your initial balance of \$20.

**SECOND POSSIBLE OUTCOME: the sum of bids to the group fund is EXACTLY \$250.** If the sum of bids equals \$250, the group fund will purchase all 25,000 shares. In this case, you will receive a personal payoff from the investment. Every other member of your group will also receive their personal payoff. Therefore, if the \$250 investment cost is exactly met, your earnings for the experiment would be equal to the amount you deposit in your private account, plus your personal payoff from the group fund.

**THIRD POSSIBLE OUTCOME: the sum of bids to the group fund is GREATER than \$250.** If the sum of bids exceeds \$250, the group fund will purchase all 25,000 shares. In this case, you will receive a personal payoff from the investment. Every other member of your group will also receive their personal payoff. In addition, the amount of bids in excess of the investment cost will be returned to the group through a rebate of excess contributions described below. Therefore, if the investment cost is exceeded, your earnings for the experiment would be the amount you deposit in your private account, plus your personal payoff from the group fund, plus your personal rebate of excess contributions.

**Calculation of your personal rebate when the sum of bids to the group fund is greater than \$250.** When the sum of the bids to the group fund exceeds \$250, you will receive a **Proportional Rebate** based on the amount of your bid relative to the sum of all bids. That is, your rebate of excess contributions is directly proportional to the total bid of your group. In other words, if your own bid was equal to 20% of the sum of bids for the group and if the sum of all bids to the group fund exceeded \$250, your rebate would be 20% of the bids in excess of \$250.

## **SUMMARY:**

- You are part of a large group.
- You and all other members of the group have received \$20 each.
- You must decide how much of your \$20 to deposit into a private account, and how much to bid into a group investment fund.
- If the sum of bids to the group fund is less than \$250, no investment will be made by the group fund but a money-back guarantee ensures that your bid will be returned to your private account. In this case, your earnings for the experiment would be equal to your initial balance of \$20.
- If the sum of bids for your group is equal to \$250, all 25,000 shares will be purchased by the group fund and you will receive the personal payoff indicated on the attached information sheet. Your earnings for the experiment would be the amount you deposited into your private account plus your payoff from the group fund.
- If the sum of bids for your group is greater than \$250, all 25,000 shares will be purchased and you will receive your personal payoff. In addition, the amount of the group bid in excess of \$250 will be returned so that the group does not have to pay more than the investment cost. The exact amount of your personal rebate would be calculated according to the proportional rebate rule described above. Your earnings for the experiment would be the amount you deposited into your private account, plus your personal payoff from the group fund, plus your personal rebate.

You must now decide how to divide your \$20 between your private account and the group investment fund. To indicate your decision, you must fill out the bottom portion of the attached decision sheet, including your name and social security number (this is necessary for you to be paid for the experiment). Please indicate how much of your \$20 you are depositing in your private account and how much you are bidding into the group investment fund. Make sure that the sum of these two amounts equals \$20.

Once everyone has completed the form, these instructions and the form will be collected. This will end the experiment. Your deposit and bid amounts will be entered into a computer along with those of all other members of your group to determine whether the investment by the group fund will be made and to calculate your earnings. Your earnings in today's experiment will be paid to you in cash at the end of class next Wednesday.

**All information regarding your personal bid, rebate and earnings is strictly confidential and will not be revealed to anyone.**

*It is very important you that you understand these instructions.*

*Raise your hand if you have any questions.*

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**INFORMATION AND DECISION SHEET**

**Table 1 – Summary Information**

<b>Your Initial Balance</b>	<b>\$20.00</b>
<b>Your PERSONAL PAYOFF AMOUNT (if sum of bids is greater or equal to the investment cost)</b>	<b>\$6.00</b>
<b>Group Investment Cost</b>	<b>\$250</b>

**BIDDING FORM**    *PLEASE WRITE LEGIBLY....WRITE LEGIBLY...LEGIBLY*

**NAME** (please print clearly): \_\_\_\_\_

**Social Security Number** (please print clearly): \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

**INDICATE HOW YOU WANT TO DIVIDE YOUR INITIAL BALANCE OF \$20  
BETWEEN YOUR PRIVATE ACCOUNT AND THE GROUP INVESTMENT FUND  
(make sure that the sum of the two amounts equals \$20.00):**

**My deposit to my PRIVATE ACCOUNT is (please print clearly):**        \$ \_\_\_\_\_

**My bid to the GROUP INVESTMENT FUND is (please print clearly):**    \$ \_\_\_\_\_