Instructions

Welcome to our experiment! Please read these instructions carefully. From now on, do not talk to your neighbors. Please switch your mobile phone off and keep it switched off until the end of the experiment. If you have any questions, raise your hand and we will come to your seat.

In this experiment, each participant will be assigned one of two roles: “A“ or “B“.

You are in the role of “A“ for the entire experiment.

Three “A“ and one “B“ will be matched with each other. No participant will ever learn the identity of the other participants.

In the experiment, *Thaler* will be used as the experimental currency unit. At the end of the experiment, all paper Thaler will be exchanged into Euro at a rate of 1 Thaler = 1€. Each participant will be paid privately and in cash. Your payout is determined by your decisions during the experiment and by the decisions of the participants you are matched with.

Details of the experiment

Stage 1: Questionnaire

Please complete the distributed questionnaire. In return, you will earn 8 Thaler.

Stage 2: Graph paper

Each participant “A“ is handed one sheet of graph paper and a pen. The task is to fill that sheet with alternating “+” and “-“ signs, as shown in the first lines. Each “A” will have 25 minutes to complete this task.

If the sheet is completely filled, “A“ receives 10 Thaler. These Thaler will be handed out by the experimenters. If the sheet is not completely filled, “A“ earns 0 Thaler, and does not take part in stage 3 to 7.

Stage 3: Decision of “B“

B decides on an allocation of the Thaler received by the “A“ in stage 2 between himself and the “A“. There are two possible allocations. If an allocation is chosen, it is implemented for all “A“.

i) 2 Thaler for “A“and 8 Thaler for “B“

ii) 10 Thaler for “A“and 0 Thaler for “B“

In the first case each “A“ receives 2 Thaler. “B“ receives 8 Thaler for each “A“ who still takes part in stage 3 (that means 24, 16, 8 or 0 Thaler when 3, 2, 1, 0 “A“’s are still participating).

In the second case, each “A“ receives 10 Thaler and “B“ receives 0 Thaler in total.

Stage 4: Transfer

The experimenters allocate the Thaler according to the decision of “B“. Each “A“ receives:

- The Thaler that “B“ allocated to him.
- The envelopes must not me opened. The envelope contains those Thaler, which “B“ designated for himself.

Stage 5: Decision of A’s

Each “A“ decides on the following question and notes this on decision sheet A:

“Should one of the envelopes be destroyed?“

In case of allocation i) this will reduce “B“s payout by 8 Thaler.

If all “A“ answer the question with no, then stage 6 (auctions) does not take place, and the payout of “B“ is not reduced.

Stage 6: Auction

All three, with the exception of those who dropped out in stage 2, take part in this auction. Out of the three envelopes exactly one will be destroyed, two will remain. Each “A“ can bid for the right to destroy *his own* envelope with the included money which B would receive from him. Only the winner of the auction may destroy the envelope. B will not receive any Thaler out of the envelope of the winner.

This is how the auction works: Each “A“ states the number of Thaler he is willing to bid on decision sheet A (minimum 0 Thaler, maximum 10 Thaler, step size 0.01 Thaler). The “A“ who entered the highest bid wins the auction and obtains the right to destroy his envelope. However, the winner has to pay the second highest bid. This cost will be deducted during the payout at the end of the experiment. There will always be a winner of the auction. If there are several , equally high, highest bids, the winner will be randomly determined.

Note: In this type of auction, it is optimal to bid just the amount that is equivalent to your valuation of the good (here: the right to destroy the envelope) that is auctioned off.

Stage 7: Result of the auction

The winner of the auction may now destroy his envelope and the Thaler in that envelope in arbitrary manner. Afterwards, the envelopes of those “A“ who did not win the auction will be handed to “B“. “B“ may open the envelopes and take the Thaler within them.

Stage 8: Questionnaire

Finally, please complete the second distributed questionnaire.

Payment

Now all Thaler are exchanged into Euro.

All “A“ own the 8 Thaler received in stage 1 as well as the Thaler received in stage 4. The winner of the auction has to pay the second highest bid in the auction.

“B“ owns the 8 Thaler received in stage 1 and all Thaler out of the envelopes of stage 3, with exception of the destroyed envelope.