Instructions [Task 2]

TASK 2

You are asked to form a step by step investment. This task inherits all general rules from the previous one. However, in contrast with previous task, at each time step you need to fill only the **leftmost empty box** (see Figures 2.1 and 2.2).

At each time step for one given scenario, you have to divide your budget (**Money**) into (i) an amount **$S** which is invested in a stock whose price can either increase or decrease with a known probability, and (ii) an amount **$C** in risk-free cash. You start with a budget of **Money**=100, but the budget can increase or decrease depending on your decision and the random price changes. But the sum of the amount in stocks and the amount in cash always equals the total budget: **$S** + **$C** = **Money**.

Your investment plan will look similar to the ones in Figure 2.1 and in Figure 2.2. Please note that the numbers and randomly chosen scenarios in Figure 2.1 and in Figure 2.2 are hypothetical and are not necessarily representative of the ones you will see during the actual task.

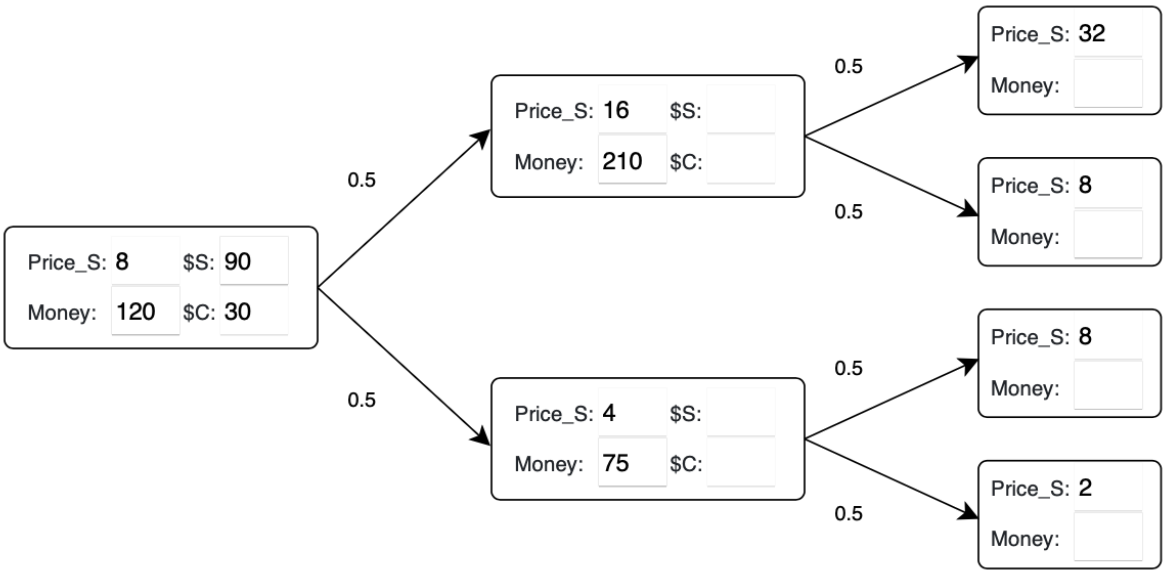

FIGURE 2.1

Figure 2.1 illustrates a first step of simplified version of the game. The task in the figure has only two step and three decision boxes and leads to only 4 possible outcomes at the end of the task. In the first box, on the left side, you will make your first decision about how to divide your initial budget of **Money = 120** between **$S** and **$C**. Should you choose to allocate all your money to **$C**, it would be equivalent

to keeping your initial wealth constant, as there is no risk of loss and no possibility of gain.

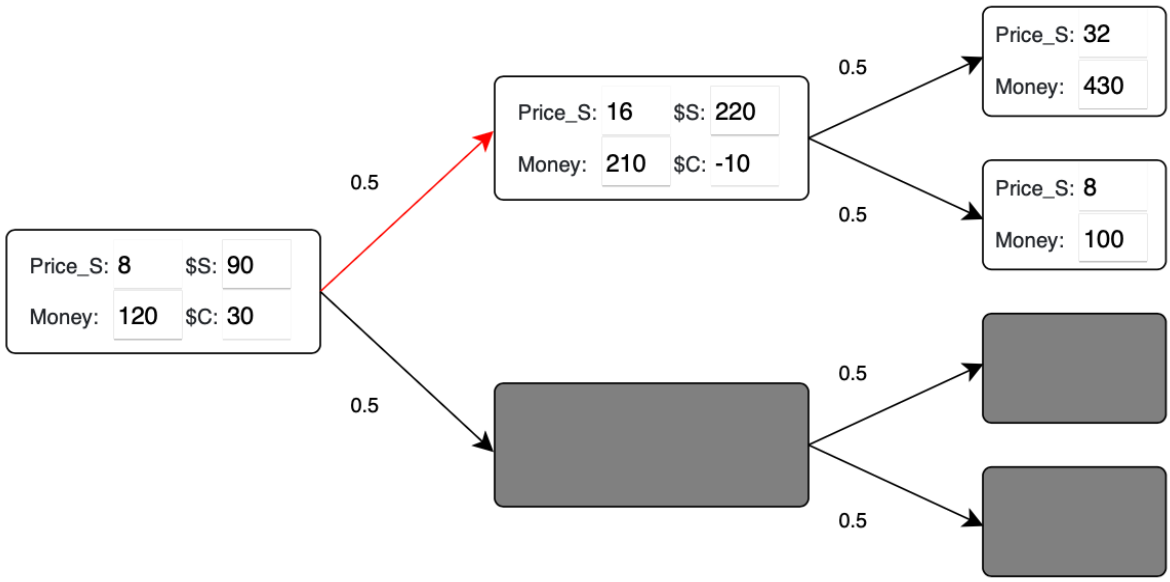

FIGURE 2.2

Figure 2.2 shows a second step of the iterative dynamic task, where computer randomly chose that price of stock increased.

In the **actual task**, you will play an extended versions with three steps, seven decision boxes and eight possible outcomes (instead of four). The rules are however exactly the same as in Figures 2.1 and 2.2.

Once decision for the first box is made, you can submit it by clicking on the “Next” button on your screen. The computer will generate a “fair coin flip” for the first box to determine whether the price of **Price_S** increases or decreases. After random price change of **Price_S**, our software will automatically eliminate those boxes located in the alternative path of the tree, thus leaving you only one decision box at each period (see Figure 2.2). For each subsequent period you will need to again make an investment decision and submit it by clicking on the “Next” button. The random sequence of “fair coin flips” generated by the computer will determine your final outcome. Your final money amount, which is the amount of points you earn in this task, will be added to the points earned in the other tasks and it will thus contribute to the total amount of money you might take home.