

INSTRUCTIONS –CT–

Welcome! You are participating in an economics experiment at Bates Economics Laboratory. In this experiment you will participate in a decision making game. If you read these instructions carefully and make appropriate decisions, you may earn a considerable amount of money that will be immediately paid out to you in cash at the end of the experiment.

Each participant is paid \$5 for attending. Throughout this experiment you will also earn points based on the decisions you make. The rate at which we exchange your points into cash will be explained to you shortly. We reserve the right to improve this in your favour if average payoffs are lower than expected.

Please turn off all cell phones and other communication devices. During the experiment you are not allowed to communicate with other participants. If you have any questions, the experimenter will be glad to answer them privately. If you do not comply with these instructions, you will be excluded from the experiment and deprived of all payments aside from the minimum payment of \$5 for attending.

The experiment you will participate in will involve interaction within groups. In each group, there are prospective clients and intermediaries. The client side of the market will be automated, and your role will be that of an intermediary, which you will keep throughout the duration of the experiment.

Clients would like to participate in a project, by making an investment worth 100 points. The value of the project is uncertain. Blue projects will be worth **200** at the end of the round. Red projects will not bring any additional value to the client and will be worth **100** points at the end of the period. As an intermediary, you have access to information regarding project type. Therefore, your task is to offer the client a recommendation, to continue or to stop participating in the project.

You will be playing a series of rounds. In each round, you will make a decision regarding the project. In the instructions below we explain how your decisions as an intermediary will affect your points and total earnings.

THE EXPERIMENT

The experiment will feature a number of rounds. In each round, you will be assigned to a group that consists of 3 clients and 3 intermediaries. Initially, each client is matched with a single intermediary. While the groups you interact in will change throughout the course of the experiment, your role will remain the same.

Each round, a client will ask for a recommendation, whether to proceed with an investment in a particular project. The client does not know whether the project is red or blue. They do, however, know that the project is blue with the probability of 50% and red with the probability of 50%. The intermediaries (you) each have access to information regarding project type. As an intermediary, you can collect a fee for your recommendation, that is worth 10 percent of the initial investment.

After observing the project type and the value associated with it, the intermediary makes a recommendation to the client. If you recommend to proceed, you will collect 10 percent of the initial investment value. If you advise the client to stop, or pull out of the project, you will not earn any points. Your earnings will depend on the number of clients you have, which depends on the action of the other intermediary. That is, if you continue while other intermediaries in your group decide to pull out, your earnings will increase based on the number of clients reallocated to you. Similarly, when you decide to stop while other intermediaries continue, your clients will be reallocated to those continuing.

Each round will consist of 2 stages.

Stage 1: The three **intermediaries** in each group receive information on the project. Each must then decide how to advise the client. If an intermediary advises the client to stop, then they will not earn any points. If an intermediary advises the client to continue then they will collect points, based on payoffs described below.

Stage 2: **All players** view the outcome of the round. They will see the decision and outcome of each player. The intermediaries will see the choice of the other intermediaries based on the number of clients they end up with and will also have access to the record of their own decisions made throughout the rounds.

EARNINGS

Your earnings will be computed according to the formula for your role:

Intermediaries:

Earnings of a Continuing Intermediary =

10% X Your client's Investment +

10% X Other clients Investments whose Intermediary stopped / continuing intermediaries

Earnings of a Stopping Intermediary = 0

Clients:

Earnings of a Continuing Client =

	Value - Fee
Blue	200 - 10 = 190
Red	100 - 10 = 90

Earnings of the Stopping Client =

Initial Investment = 100

There are 9 participants in this session. There will be 3 groups at any point. Every round you will be rematched with different players. While you will not know *who* you are playing with, you will end up interacting with players more than once. No two groups you participate in will have exactly the same people.

The points you earn from 2 randomly selected rounds will be added up, exchanged into dollars and paid to you, along with your show up fee, in cash at the end of the experiment. Your exchange rate is written on the board.

Who are the clients?

The clients are computerized robots who invest when there is an intermediary available.