

INSTRUCTIONS –MHT–

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 is a prospective client and an intermediary. 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 play the role of an intermediary, who is matched with a client. Your role will remain the same throughout the experiment, but the prospective client is new every round.

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 30 percent of the initial investment of 100.

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 30 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 your recommendation.

Each round will consist of 2 stages.

Stage 1: The **intermediaries** receive information on the project before them. 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: **Each player** will view the outcome of the round. The intermediaries will have access to the record of decisions made throughout the rounds.

EARNINGS

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

Intermediaries:

Earnings of a Continuing Intermediary = 30% X Your client's Investment = 30

Earnings of a Stopping Intermediary = 0

Clients:

Earnings of a Continuing Client =

	Value - Fee			
Blue	200	- 30	=	170
Red	100	- 30	=	70

Earnings of the Stopping Client =

Initial Investment = 100

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 on the advice of an intermediary.