**Instructions for “Third Stage” and “Race Salient with Third Stage” Treatments (for Workers)**

This experiment is part of the research project conducted by Iowa State University. It is used to analyze decision behavior in markets. The instructions are simple and if you read them carefully and make appropriate decisions, you can earn money ranging from zero to 10 dollars (on top of 3 dollars participation fee). Your earnings will be calculated in points which will be converted to dollars at the end of experiment at the following rate.

**1 point = 10 cents**

In this whole experiment consider yourself as a worker who is working for an employer. These employers are real people (like yourself) who are assigned the “role of employer” by the experimenters. As part of this experiment you will be randomly matched with the employer. That employer will select a wage for you, you will observe wage and then chose effort level, finally, employer can increase or decrease your earnings by choosing a multiplier between 0 and 2. Effort is costly to you but profitable to your employer. Multiplier may increase or reduce your earnings, any value of multiplier other than one is costly to employers. Throughout this experiment, your randomly matched employer will not know anything about your identity.

The experiment will consist of 10 periods. In each period you will be matched with a new employer. Each period will consist of three stages. In the first stage your employer will select a wage. In the second stage you (worker) will see the wage and choose the effort level. In the third stage employer will observe your effort choice and choose a multiplier between 0 and 2. Wage rate, effort level and multiplier will affect yours and your employer’s earnings. Your earning from a period will be as follows;

Worker Earning = (Wage – 20 – Effort Cost) x Multiplier

Your employer earning will be as follows;

Employer Earning = (120 – Wage) x Effort – Multiplier Cost

Putting more effort is costly to you but it benefits your employer. Your cost for each allowed level of efforts is as follows;

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Effort | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1 |
| Effort Cost | 0 | 1 | 2 | 4 | 6 | 8 | 10 | 12 | 15 | 18 |

Your employer can offer you any wage between 20 and 120 (in increments of 5).

Cost of multiplier to employer is given as follows;

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Multiplier | 0 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1 |
| Multiplier Cost | 10 | 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 |
| Multiplier | 1.1 | 1.2 | 1.3 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 | 2 |  |
| Multiplier Cost | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |  |

For example, if your employer selected the wage offer of 50, you chose effort level of 0.5 and the employer decided to choose Multiplier = 1.5 then your and your employer’s earnings will be as follows;

Multiplier by the employer.

Cost of choosing 0.5 effort (from table 1).

Wage by the employer.

Worker Earning = (50 – 20 – 6) x 1.5= 36

Employer Earnings = ((120 – 50) x 0.5) - 5 = 30

Cost of selecting multiplier of 1.5 (from table 2)

Effort as chosen by the worker

Wage by the employer.

Throughout the experiment you will have access to on-screen calculator in which you can input different values for effort and see your earnings and your employers’ earning for that period before submitting your effort choice. As already mentioned there will be 10 periods in this experiment, which means you will make an effort choice 10 times (for 10 different employers). At the end of this experiment, one of the 10 periods will be randomly chosen by the computer and you and your employer’s final earnings will be what you and your employer earned in that chosen period. It is in your interest to do your best in each period.

Make sure you understand the instructions before proceeding. The next screen will ask you questions related to some arbitrary examples of what could happen in the experiment. These instructions will be accessible to you throughout the experiment.