

Experiment Instructions

This is an experiment in the economics of decision making. Funding for this research has been provided by the Ohio State University. The instructions are simple, and if you follow them carefully and make good decisions, you may earn a CONSIDERABLE AMOUNT OF MONEY which will be PAID TO YOU IN CASH at the end of the experiment. We follow a no-deception ethical policy at the Economics Lab, hence these instructions fully describe the experiment.

A Brief Overview of the Experiment

In this experiment you will be part of a group of 5 people that must decide how many tokens to contribute into a common account. The funds you contribute are multiplied times 2, and then you will be asked to propose a distribution of the group's fund among the members. One of the proposals will be chosen randomly in your group to be voted on, for which a simple majority is required. In case the current proposal is rejected, the members of the same group proceed to another proposal and voting rounds until one allocation is approved. On the meantime, groups that have approved an allocation remain on standby. The details of the experiment follow.

The Details of the Experiment

As expressed above, this experiment involves three main tasks: **(1) contribution, (2) proposal, and (3) voting**. We proceed to fully explain each stage.

(1) Contribution

You are endowed with 40 tokens initially and will be asked to enter a contribution that you wish to make to the group's account no greater than your initial endowment. Whatever amount you decide to give is multiplied by 2.

(2) Proposal

In this stage you have to assign a share of the group's account to every member in your group including yourself. The group account (GA) is given by:

$$GA = \text{Initial Fund} + (\text{Sum of Contributions}) \times 2$$

The *Initial Fund* is composed of 30 tokens. In this stage you are able to observe how many tokens has each member of your group contributed.

(3) Voting

One of the member's proposals will be randomly chosen to be voted on. You will observe how much is assigned to each member prior to voting and will then click "accept" or "reject". For approval, the proposal requires a simple majority.

If approved: the result will be binding and your group will remain in standby while others finish their allocations.

If rejected: every member in your group will proceed to stage (2) in order to enter a new allocation. Feedback on the previous distribution of shares that was voted on, the voting result, and who was the proposer, will be given to you.

The process repeats itself until an allocation of the group account is approved. You will participate in a total of 10 rounds. In each round, you will be randomly reassigned into a group of 5 people, and your subject number for each round is determined randomly too. This is, in round 1 you can be subject A, and in round 2 you can be subject C.

Your Earnings

One of the rounds will be randomly selected for payment. Your earnings (E) are then given by

$$E = \underbrace{(40 - \text{Contribution})}_{\text{How much you kept}} + \text{Assigned Share}$$

The conversion rate between tokens and dollars is 10 Tokens = 1 dollar. Hence, your final payment is given by:

$$\text{Payment} = \text{Show Up Fee} + E/10$$

Are there any questions so far?

Examples

In the following examples there is no initial group account and 1 token = \$1. They are not meant for you to mimic or disregard, rather to guide you through the steps.

Example 1. Consider a 3 person committee in which individuals are endowed with 10 tokens and each unit contributed increments the public fund by 2 tokens. If Person A contributes 1, Person B contributes 10, and Person C contributes 5, then the total fund to distribute will be

$$2 \times (1 + 10 + 5) = 32$$

Suppose that player C's reallocation plan was randomly chosen and was as follows: 10 for A, 20 for B, and 2 for his/herself. Then, if votes are respectively "yes", "no", "yes", the proposal is accepted. If this round was randomly chosen for payment, Player A would receive 9 (kept) +10 (share approved) + 5 (show up) which equals 24. Similarly, Player B would receive (5+0+20) =25; and Player C will receive (5+5+2)=12.

This is just an example; you do not have to do this. Instead, votes could have been "no", "no", and "yes". Hence a new allocation round would take place.

Example 2. Consider a 5 person committee in which individuals are endowed with 10 tokens and each unit contributed increments the public fund by 2. If members A,B,C do not contribute and members D and E contribute 5 tokens each, the total fund to distribute will be

$$2 \times (5 + 5) = 20$$

After each member has entered their proposal for reallocation, suppose that D's proposal is chosen to be voted on and it establishes 4 tokens for each person. If votes are "no", "no", "no", "yes", "no", then the proposal is rejected and a new round will round of proposal submission and voting will take place. If votes were "yes", "yes", "yes", "no", "no", then the proposal would be accepted.

Players A, B, and C, would receive 10 (kept) + 4 (allocated share) + 5 (show-up fee) which equals 19 while D and E would receive 5 (kept) + 4 (allocated share) + 5 (show-up fee) which equals 14.

Are there any questions?

What should you do? If we knew the answer to this question we would not be conducting an experiment.

Review of the experiment

1. Everyone is randomly assigned into groups of 5
2. Out of your 40 token endowment, you will decide how much to contribute to common pool
3. The sum of people's contributions will be multiplied times 2
4. Each one of you will proceed to propose a share to each member (including yourself) such that the sum of shares adds up to the total fund.
5. One of the proposals will be chosen for voting, and everyone will cast a vote.
6. If a majority accepts, the allocation is binding, and you will wait in standby until the other groups decide on an allocation.
7. If a majority rejects, everyone in the group will be called to submit a new proposal, and the process repeats itself until a given allocation is accepted.
8. In each period of play you will be randomly paired with new members.
9. 1 of the 10 periods of play will be chosen randomly for payments.

What should you do? If we knew the answer to this question, we would not need to run an experiment. The following rounds count for money. Please proceed.