



Experimental Instructions¹

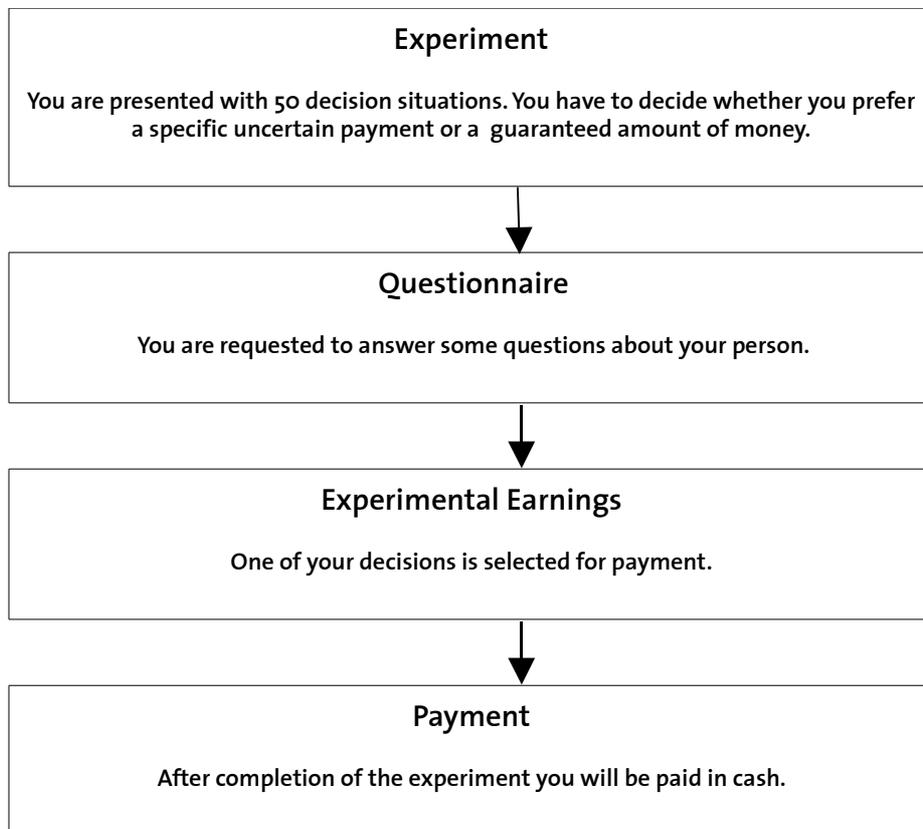
You are about to participate in an economic experiment. This experiment is part of a research project conducted by the Center of Economic Research and sponsored by the Swiss Federal Institute of Technology Zurich (ETHZ). The objective of this experiment is to analyze financial decision making.

You will receive a payment of CHF 10 in compensation for participating in the experiment. In the course of the experiment, you may earn an additional amount of money. The magnitude of this amount depends on the decisions you make during the experiment and on chance. **Therefore it is in your interest to read the following instructions carefully.** Your earnings will be paid out to you in cash immediately after completion of the experiment.

During the whole course of the experiment communication between participants is not allowed. Participants who do not abide by this rule will be excluded from the experiment and all payments. If you have any questions please contact the experimenters.

¹ This is a translation of the original German instructions for the Zurich 03 experiment, abstract treatment.

The following table gives you an overview of the experiment. All steps are explained in detail below.



If you have any questions during the course of the experiment please ask the experimenters. There will be a test run in order to familiarize you with the procedure.

The Experiment

This experiment consists of 50 decision situations. In each decision situation you have to choose between an uncertain amount of money (option A) and a guaranteed amount (option B). The uncertain payments materialize with varying probabilities. There are two different types of decisions: The payments can be either positive (gain situation) or negative (loss situation). In loss situations you are endowed with a specific amount of money (endowment) to compensate you for any potential losses. In each decision situation you are given all the relevant information: the uncertain payments with the respective probabilities, the guaranteed options and the endowment where applicable.

You take your decisions independently of all other participants in this experiment. Thus, you may work at your own pace.

All the decision situations are completely independent of each other. A choice you make in one decision situation does not affect any of the other decision situations. Gains and losses from different decision situations are not offset, either.

The following examples show how these two types of decision situations look like (see Decision Sheet 1 and Decision Sheet 2 in the appendix). Each decision situation is displayed on the computer screen. The screen consists of 20 lines. In **each** line you have to decide whether you prefer option A or option B. Option A, the uncertain alternative, is the same for every line while the guaranteed option B takes on 20 different values. For gain situations the guaranteed amounts are listed in descending order. For loss situations the guaranteed options are listed in ascending order.

- **Gain Situations**

Take a look at Decision Sheet 1. The uncertain option A is specified as follows: There is a 50% chance of winning CHF 40 and a 50% chance of winning CHF 0 when you choose this option. The guaranteed option B pays off CHF 40 to CHF 2. For each of these guaranteed payments you have to decide whether you prefer the respective guaranteed payment or the uncertain option. Let's assume that you prefer the guaranteed payment from CHF 40 to CHF 18, and you prefer the uncertain option for guaranteed amounts of CHF 16 and less. Your decision is entered on the computer screen as follows: you have to click on the button next to option A in line 13 (where option B gives you CHF 16) and in every following line. If you do not enter anything, the computer assumes you always prefer option B. Once you have finished filling in your decisions, click OK. The next decision situation will appear on your screen.

- **Loss Situations**

Take a look at Decision Sheet 2. Here the uncertain option A is described as a loss of CHF 80. This loss occurs with a probability of 20% while you lose nothing with a probability of 80%. The guaranteed loss (option B) takes on values from CHF 4 to CHF 80. In each loss situation, you will be endowed with a guaranteed amount of money. In this example the endowment amounts to CHF 80. Let's assume that you prefer the guaranteed loss up to an amount of CHF 20 to the risk of losing CHF 80 with probability 20%. In this case, tick option A from line 6 (where option B equals CHF 24) downwards. After pressing the OK button, the next decision situation appears on your screen.

After completion of 50 decision situations you are requested to fill out a questionnaire.

Filling out the Questionnaire

The questionnaire serves to collect data about your person. We need this information to interpret the results of the experiment. We kindly ask you to fill out **the whole** questionnaire. The data will be processed anonymously.

All data are used exclusively for scientific purposes.

Calculation of your Payment

By the end of the experiment, you will have processed 50 decision situations. One of these will determine the amount of money you will be paid. One decision situation is randomly drawn for payment as follows: You will determine one decision situation and one specific line on the corresponding decision sheet by throwing dice. Every decision situation is drawn with the same probability. If you chose the guaranteed option on the selected sheet, you will receive the respective amount of money. If you chose the uncertain option there another throw of the dice will determine which outcome you will receive.

Example of a gain situation: Let's assume that by throwing the dice you identify line 7 in our example on Decision Sheet 1. In line 7 you preferred option B = CHF 28. You will receive CHF 28 plus the participation fee of CHF 10, i.e. a total payment of CHF 38.

Example of a loss situation: Let's assume that by throwing the dice you identify line 6 in our example on Decision Sheet 2. In line 6 you preferred option A. Let's assume that the dice indicate that you don't lose money. In this case, you will receive the endowment of CHF 80 plus the participation fee of CHF 10. This makes a total of CHF 90. Now let's assume that the dice indicate that you lose money. Your payment will comprise the endowment of CHF 80 minus the amount lost (CHF 80) plus the participation fee of CHF 10, which sums up to a total payment of CHF 10.

Payment

After completion of the experiment you will receive your total earnings in cash.

After all the participants have read and understood these instructions, we will start a test run.

Do you have any questions?

Decision Sheet 1

| | Option A | Your Choice | Option B (guaranteed gain) |
|----|--|--|-------------------------------|
| 1 | <p>Gain of CHF 40 with a probability of 50% <i>and</i> Gain of CHF 0 with a probability of 50%</p> | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 40 |
| 2 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 38 |
| 3 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 36 |
| 4 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 34 |
| 5 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 32 |
| 6 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 30 |
| 7 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 28 |
| 8 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 26 |
| 9 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 24 |
| 10 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 22 |
| 11 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 20 |
| 12 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 18 |
| 13 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 16 |
| 14 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 14 |
| 15 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 12 |
| 16 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 10 |
| 17 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 8 |
| 18 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 6 |
| 19 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 4 |
| 20 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 2 |

Decision Sheet 2

Endowment: CHF 80

| | Option A | Your Choice | Option B (guaranteed loss) |
|----|--|--|-------------------------------|
| 1 | <p>Loss of CHF 80 with a probability of 20% <i>and</i> Loss of CHF 0 with a probability of 80%</p> | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 4 |
| 2 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 8 |
| 3 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 12 |
| 4 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 16 |
| 5 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 20 |
| 6 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 24 |
| 7 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 28 |
| 8 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 32 |
| 9 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 36 |
| 10 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 40 |
| 11 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 44 |
| 12 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 48 |
| 13 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 52 |
| 14 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 56 |
| 15 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 60 |
| 16 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 64 |
| 17 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 68 |
| 18 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 72 |
| 19 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 76 |
| 20 | | A <input type="radio"/> B <input checked="" type="radio"/> | CHF 80 |