SUPPLEMENT TO “CONTRACT STRUCTURE, RISK-SHARING, AND INVESTMENT CHOICE”
(Econometrica, Vol. 81, No. 3, May 2013, 883–839)

BY GREG FISCHER

A. SAMPLE INSTRUCTIONS

THE FOLLOWING INSTRUCTIONS are for the joint liability game with imperfect monitoring. Complete experimental instructions are contained in the online replication files.

Instructions

Good afternoon, everyone, and thank you for agreeing to participate in our study. We are conducting a study of how microfinance clients make investments and share risk. Instead of asking you a lot of questions, what we’d like to do is have you play some games with us. The games are simple. You don’t need any special skills. They’re probably like games you played before. You don’t need to know how to read. There are no “right” or “wrong” answers. We just want to understand how you make choices and what sorts of investment you prefer.

Here is how the game works. You will play games where the amount of money you win is based on picking a colored stone. Display large 100/10 payoff sheet. One of us will hold a stone in each hand. One stone is white. The other is black. Show stones. We will mix the stones up and you will pick a hand. No one will know which stone is in which hand, so the color you get is based on chance.

If you pick the white stone, you will win the amount shown in white. If you pick the black stone, you will win the amount shown in black.

Play practice round and administer oral test to confirm understanding. Distribute project choice sheets and tokens (carom coins).

We will give you choices about which game you want to play. Look at the sheet in front of you. It describes eight games. The color on the page tells you how much you win for each color stone. If you play game “B,” how much do you win if you pick the white stone? How much for the black?

You can pick which game you want to play by placing a carom coin on your choice. For example, if you wanted to play the first game, you would put your black carom coin over the “A.” Demonstrate. And if you wanted to play [the fifth game], you put your coin over the “E.”

The choice is yours. There are no right or wrong answers. It’s only about which choice you prefer.

You can discuss your choices with the other person at your table, but do not speak with anyone else. Also, while you may talk with the person at your table, you may not look at her choices or score sheet. The first time you look at your
partner’s sheet, we will deduct Rs. 20 from your score. If you peek a second time, we will have to ask you to leave the study.

We will play several rounds today. At the end of the day, we will put the number for each round you play in this blue bucket. Suppose you play three rounds. We will put the numbers 1, 2, and 3 in the bucket and you will pick a number from the bucket without looking. We will pay you in rupees for every point you scored in just that round. Remember, you will only be paid in rupees for one of the rounds that you play today. Demonstrate example. Remember, every round counts, but you will only be paid in rupees for one of the rounds. At the end of the day, you will be paid individually and privately. No one will see exactly how much you earn.

Administer second test of understanding.

In this game, you will play with a partner. You will use a white carom coin to mark your choices. When you make your choice, we will take your white coin. After you play the stone matching game, we will pay you in chips. The white chips are worth Rs. 5 and the red chips are worth Rs. 20. At the end of each round, you must repay your loan of Rs. 40. You and your partner are responsible for each other’s loans. So to get your white coin back, you both must repay your loan. You may not look at your partner’s score sheet or see how much she wins. However, after we play the stone matching game, we will tell you whether your partner made enough to pay her loan back.

After you play the stone matching game and receive your chips, you can choose to give some of your earnings to your partner. You can discuss these transfers with your partner. You do not have to make any transfers. However, you are responsible for both your loan and your partner’s loan, and will be able to continue playing the game only if both of you can repay your loan of Rs. 40.

If you wish to make any transfers, put any chips you wish to transfer to your partner in the bowl in front of you. Do not hand chips directly to her or place them in her bowl. Only place the chips you wish to transfer in the bowl in front of you. This is important because we need to keep track in order to pay you the correct amount at the end of the day. We will then collect your loan repayment.

Your earnings for the round will be equal to the total amount of chips that you have after any transfers you make to your partner and after you repay your loan. If either you or your partner are unable to repay your loan, you will both earn zero for the round and will not receive your white coin.

At the end of each round, we will pick a ball from this cage. There are 20 balls in the cage: 15 are white and 5 are red. If the ball is white, you will play another round of the same game with the same partner. If you do not have your white coin, you will have to sit out and will score zero for the round. If the ball is red, this game will stop and we will play a new game. Everyone will start with a new white coin and be matched with a new partner. After the red ball is pulled from the cage, you will not play with the same partner again for the remainder of the day. At any time, you can expect the game to last four more rounds, but we will play until a red ball appears.
If you have any questions at any time, please raise your hand and one of us will come and assist you.

Administer final test of understanding.

Play practice round.
B. PRESENTATION OF LOTTERIES

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FIGURE A1.—Presentation of core game lotteries.
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Manuscript received February, 2010; final revision received October, 2012.