

Appendix

Instructions for the Insurance Sessions

This is an experiment about decision making. You will be paid for participating, and the amount of money you earn depends on the decisions that you make. At the end of today's session you will be paid privately and in cash for your decisions. Several research foundations have provided the funds for this experiment.

You will never be asked to reveal your identity to anyone during the course of this experiment. Your name will never be associated with any of your decisions. In order to keep your decisions private, please do not reveal your choices to any other participant.

THIS EXPERIMENT

The experiment will proceed as follows. First, we will ask you to select one person as a monitor to watch the procedures, examine the equipment, and make sure that the experimenters really are doing what they say they are doing. The monitor should check the truthfulness of what the experimenter says, but other than that may not communicate any information to you in any way. If the monitor communicates any other information, he or she will be asked to leave without payment. The monitor will receive \$19 for his or her efforts. This is the average amount we expect the other participants to earn, based upon similar experiments we have conducted.

During this experiment you will be asked to make a number of decisions. You will start this experiment with \$23. At the end of the experiment we will randomly choose *one* of your decisions from this part of the experiment. How much of this money you keep will be based on this one decision, as described below.

If you look at the front of the room, you will see two cups, one marked **A** and one marked **B**. There are six balls in each cup; some of these are orange balls, and the others are white balls. CUP A has 4 orange balls and 2 white balls. CUP B has 3 orange balls and 3 white balls. We also have a six-sided die.

First, CUP A and CUP B are put behind this screen. Then we will roll the die. Before each round, we will tell you that if certain numbers are rolled we will choose CUP A, and otherwise we will choose Cup B. For example, if we roll a 1, 2, 3, or 4, we will pick CUP A. If we roll a 5 or 6, we will pick CUP B. After we roll the die, the monitor will be asked to choose the appropriate cup (A or B). The monitor will pour the balls from the cup into this bucket. Notice that you will not observe what number was rolled or which cup was chosen. It is the monitor's job to make sure that these procedures are followed as described in these instructions.

Next, the experimenter will make six draws from the bucket, replacing the drawn ball each time. She will show the chosen ball to you, then the monitor will write the results of the draw on the board ("O" will denote an orange ball, and "W" will denote a white ball). The experimenter will return the drawn ball to the bucket, and then draw another ball. After six draws have been made, you will be asked to circle either CUP A or CUP B on your decision sheet. We explain below how the Cup that you select determines your earnings.

After you circle your choice, we will collect your decision sheets, and start again with the next round. We will announce which numbers will determine whether we choose CUP A or CUP B. Then we will roll the six-sided die and select a cup based on this die roll. The entire process will be repeated 16 times. Notice that we will not tell you which cup was drawn in any of these decisions until the end of the experiment.

EARNING MONEY IN THIS EXPERIMENT

After you have made all 16 decisions, we will pick a ball from a bucket that contains 16 ping pong balls, numbered from 1 to 16. The number that appears on the ball will determine which *one* of your decisions you will be paid for. For example, if a ball that shows a "1" is drawn you will be paid only for your first decision. Any decisions that you make in any other round will not affect your earnings. Next we explain how your earnings for this one decision will be determined.

If the Cup you circle matches the Cup used in the round that is selected, you will keep all of the \$23 you started with. If the Cup you circled does not match the Cup used in this round, we will deduct \$14 from this \$23.

However, in some rounds you will be given an option to purchase insurance that will reimburse you for any losses incurred during this portion of the experiment. In each round, we will post prices for the insurance. The price of insurance may be different depending upon whether you circle CUP A or CUP B. If you decided to purchase insurance in the round that was chosen, we will deduct the price of the insurance for the Cup you circled from the \$23 you started with.

If you purchase insurance and the Cup you circled *does not* match the one used, the insurance policy will reimburse you for the \$14 that would have been deducted from your earnings. If you purchase insurance and the Cup you circled matches the one used, the insurance policy pays you nothing. In other words, if you purchase insurance your final earnings will be \$23 minus the announced price of the insurance, whether or not the Cup you circled matches the one that was used in the round.

If you choose not to purchase insurance, your earnings are determined as stated before: If the Cup you circle matches the Cup used in the round that is selected, you will keep all of the \$23 you started with. If the Cup you circled does not match the Cup used in this round, we will deduct \$14 from this \$23.

If you have the option to purchase insurance, your record sheet will look like the following:

Round 0: You <i>do</i> have the option to purchase insurance	ID Number:
CUP A has 4 orange balls and 2 white balls. CUP B has 3 orange balls and 3 white balls.	
If we roll a 1, 2, 3, or 4, we will pick CUP A. If we roll a 5 or 6, we will pick CUP B.	
Record the results for this round: ____ _	(use W for white and O for orange)
Record the prices of insurance for this round below:	
Price of insurance if you circle CUP A	
Price of insurance if you circle CUP B	
1. Circle one of the cups below:	
CUP A	CUP B (circle only one)
2. Do you wish to purchase insurance against making an incorrect choice, at the price posted for the Cup you circled in 1?	
BUY INSURANCE	DO NOT BUY INSURANCE (circle only one)

As we make each of the six draws, you should record them in the spaces provided. Next, we will post insurance prices, which you also will record in the spaces provided.

Finally, we will ask you to circle one of the Cups (A or B) and whether or not you wish to purchase insurance at the posted price for the Cup you circled. Notice that you will make two choices: you will circle one of the cups *and* you will choose whether or not to purchase insurance. If you choose to buy insurance, you will pay the price that is posted for the Cup that you circled.

If you do not have the option to purchase insurance, your record sheet will look like the following:

As we make each of the six draws, you should record them in the spaces provided. Next, we will post insurance prices,

Round 0: You <i>do not</i> have the option to purchase insurance	ID Number:	
CUP A has 4 orange balls and 2 white balls. CUP B has 3 orange balls and 3 white balls.		
If we roll a 1, 2, 3, or 4, we will pick CUP A. If we roll a 5 or 6, we will pick CUP B.		
Record the results for this round: _____ (use W for white and O for orange)		
Record the prices of insurance for this round below:		
Price of insurance if you circle CUP A		
Price of insurance if you circle CUP B		
Circle one of the cups below:		
CUP A	CUP B	(circle only one)

which you also will also record in the spaces provided. Finally, we will ask you to circle one of the Cups (A or B). This is the only decision that you will make in this round.

INSURANCE PRICES

Before the experiment, we calculated the insurance prices in such a way that if we repeated this enough times, on average the insurance would reimburse to you exactly the amount that you paid for the insurance. In other words, we expect those people who buy insurance, on average, to break even. We are using tables with these calculations to set the price of insurance for any draws that might be obtained today.

SUMMARY

We will now hand out a sample (Round 0) decision sheet. In this sample round, everyone will have the opportunity to purchase insurance. We will walk through this practice round, performing all of the steps just as we will during the actual experiment. We will not collect any decision sheets, and your choices will have no effect on your earnings. We are doing this to be sure that you understand the procedures and how your earnings will depend on the choices you make.

FINAL REMARKS

During the experiment, you are not permitted to speak or communicate with the other participants. If you have a question while the experiment is going on, please raise your hand and one of us will come to your desk to answer it. If you have a question at this time, please raise your hand and one of us will come to your seat to answer it.

Instructions for No Insurance Sessions

This is an experiment about decision making. You will be paid for participating, and the amount of money you earn depends on the decisions that you make. At the end of today's session you will be paid privately and in cash for your decisions. Several research foundations have provided the funds for this experiment.

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During this experiment you will be asked to make a number of decisions. You will start this experiment with \$23. At the end of the experiment we will randomly choose *one* of your decisions from this experiment. How much of this money you keep will be based on this one decision, as described below.

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Next, the experimenter will make six draws from the bucket, replacing the drawn ball each time. She will show the chosen ball to you, then the monitor will write the results of the draw on the board ("O" will denote an orange ball, and "W" will denote a white ball). The experimenter will return the drawn ball to the bucket, and then draw another ball. After six draws have been made, you will be asked to circle either CUP A or CUP B on your decision sheet. We explain below how the Cup that you select determines your earnings.

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If the Cup you circle matches the Cup used in the round that is selected, you will keep all of the \$23 you started with. If the Cup you circled does not match the Cup used in this round, we will deduct \$14 from this \$23.

In each round of the experiment, your record sheet will look like the following:

Round 0:	ID Number:
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If we roll a 1, 2, 3, or 4, we will pick CUP A. If we roll a 5 or 6, we will pick CUP B.	
Record the results for this round: _____ (use W for white and O for orange)	
Circle one of the cups below:	
CUP A	CUP B (circle only one)

As we make each of the six draws, you should record them in the spaces provided. Then we will ask you to circle one of the Cups (A or B). After this we will collect all decision sheets, and start again with the next round.

SUMMARY

We will now hand out a sample (Round 0) decision sheet. We will walk through this practice round, performing all of the steps just as we will during the actual experiment. We will not collect any decision sheets, and your choices will have no effect on your earnings. We are doing this to be sure that you understand the procedures and how your earnings will depend on the choices you make.

FINAL REMARKS

During the experiment, you are not permitted to speak or communicate with the other participants. If you have a question while the experiment is going on, please raise your hand and one of us will come to your desk to answer it. If you have a question at this time, please raise your hand and one of us will come to your seat to answer it.