Supplementary Appendix

B. EXP and INEX Menus - Experiment II

B1: Prizes included in the INEX menu (as described in the ranking assignment)

Prize 1: Dinner for a couple in a restaurant of your choice

Dinner for a couple in a restaurant of your choice, from a list of more than 100 locations around Israel. The list of locations includes, amongst others, *(at this point the questionnaire presented several examples of well known restaurants in different locations around Israel)*. The value of the meal is limited to 250 NIS.

Prize 2: Invitation to a SPA + 60 minutes massage in your selected location

Free invitation to a SPA from a list of more than 50 locations. The coupon provides free entry to the SPA, up to 60 minutes massage treatment, and complementary beverage. The list of available locations includes…. *(at this point the questionnaire presented several examples of well known health clubs in different locations around Israel)*.

Prize 3: Packet of 150 grams Gourmand chocolate

150 grams of quality XXX chocolate. The packets includes 3 different types of gourmand chocolate

Prize 4: Bottle of table red-wine 2005

Produce of *(a well-known Israeli winery)*. Dry or semi-dry. Harvest of 2005.

Prize 5: 40 Shekel coupon for book purchase

The coupon would entitle you to a discount of 40 shekel in purchasing books in *(the questionnaire referred to a leading bookstore-chain of with dozens of braches around Israel)*

Prize 6: Single meal in a fast-food restaurant

In one of the following fast-food chains (*the questionnaire referred to several leading fast-food chains)*. The term "single-meal" refers to one of the meals printed in the restaurant's menu.

B2: Prizes included in the EXP menu (as described in the ranking assignment)

The description of dinner and SPA prizes was presented above. The other prizes are described next.

Prize 3: LCD screen 17''

Produce of *well known manufacturer.* Smartmanage technology… *other technical features of the screen were presented* . The market price of the screen is about 1000 NIS.

Prize 4: Weekend for a couple in a luxurious Zimmer –by your choice

Bed and breakfast for a couple in a luxurious Zimmer. Free choice from more than 40 "cabins" around the country. Arrival on Thursday. Departure on Saturday evening. Not including holidays. The list of *Zimmers* includes… *the questionnaire referred to several well known locations around the country*

Prize 5: Tickets to the Theater for a couple

The coupon referred to a leading theater in Israel. Regular show. No limits on the specific shows. Expensive ticket category.

Prize 6: Pack of 6 table red-wines

Produce of *(a well-known Israeli winery)*. Dry or semi-dry. Harvest of 2005.

C: General Instructions - Experiment III

In the experiment, you will be asked to bid prices for 8 different items that will be sold in 8 auctions. [1]

The common feature of the 8 items being sold is that the item will be represented in the form of a lottery

For example, in some of the auctions we will sell you a lottery ticket with a given distribution of payoffs (prizes); in other auctions we will sell you a consulting job with a payoff that is described in the form of a probability distribution.

At the beginning of each auction, we will endow you with a budget (initial balance) of 1000 NIS. We will then ask you to bid a price (i.e., propose a price) to the item under consideration.

At the end of the experiment, we will randomly choose one of the 8 auctions/items ("the selected auction/item")

We will then randomly match all the participants into pairs.

For each pair, we will check who has submitted the highest offer for the selected item.

The participant that has submitted the highest offer will win the object but pay the price that was offered by her/his partner.

For example, if one participant (in a given pair) has bid 820 for the selected lottery and the second participant has bid 640 for this lottery, then the bidder that has offered 820 would win the lottery for a price of 640 NIS (In other words, for those of you who are familiar with the term, the lotteries would be sold to each pair in a "second-price auction").

Calculation of Final Balances

*To calculate the final balance of the participant that has won the selected auction, we will first ask the computer to randomly draw the outcome of the lottery that describes the selected item (for example, the lottery ticket or the payoff from the consulting job)

*In some of the auctions, you will receive "**additional information**" concerning the outcome of the lottery. The "additional information" is guaranteed by the auction (experiment) organizers!

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[1] In addition to problems 1-3, subjects were asked to bid for 2 simple binary lotteries that are not related to the other problems. The results for these control problems are irrelevant to the current discussion; we therefore omit the details.

*The **final balance** of the participant that has won the auction will be: 1000 NIS (the initial balance) minus the price as determined in the auction plus the lottery's outcome as drawn by the computer

*The final balance of the participant that has not won the auction will be equal to the initial balance: 1000 NIS

*For example, if the first participant has offered 820 NIS for the selected lottery while the second participant has offered 640 for the lottery and the lottery's outcome was X NIS, then the final balance of the first participant would be 1000-640+X; while the final balance of the second participant would be 1000.

Actual payout

The experiment's budget is 3200 NIS (for about 80 participants). At the end of the experiment, we will divide this amount among the participants in proportion to the final balance of each participant (that is, the larger your final balance, the larger check you would receive).

Important Remark

The auction method that we are using is intended to guarantee that you disclose the *true value* of each lottery. By well known results in economics, "revealing you true value" is the best strategy in such auctions; there's no point in submitting "false-bids". We ask for your cooperation.

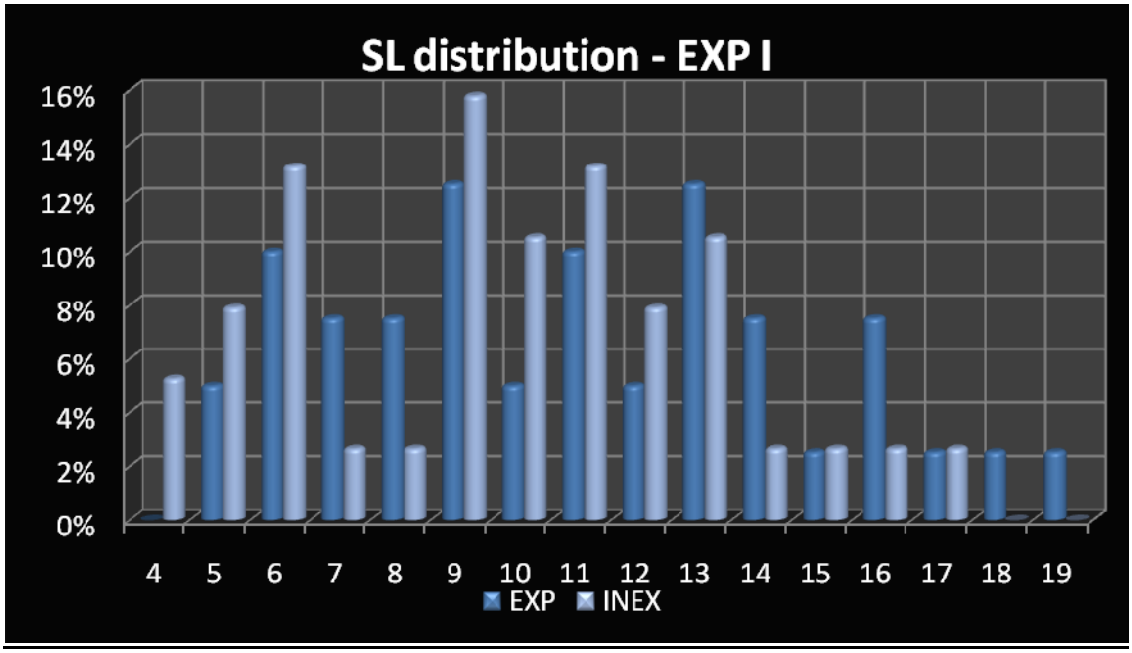
Additional Important Comment

The "*true value*" of each lottery is *subjective.* That is, each participant in the experiment may have his/her personal tastes and these determine the value of each lottery for this participant. There is no point consulting your neighbors.

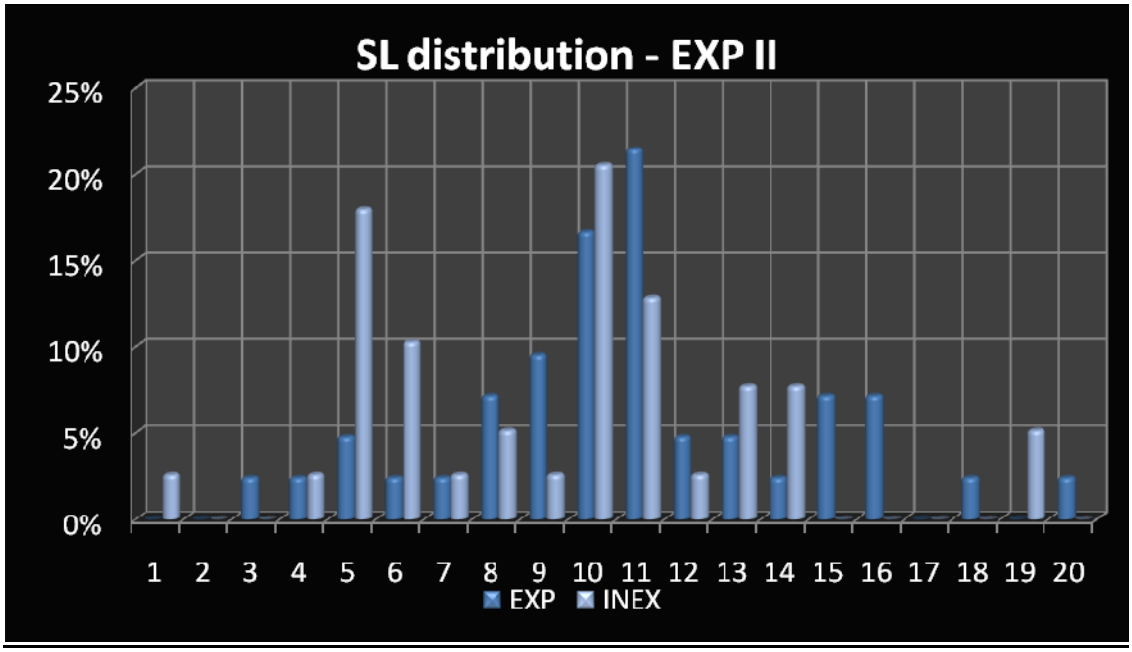
Good Luck.

D: Densities of Elicited (Approximate) Valuations in EXP vs. INEX

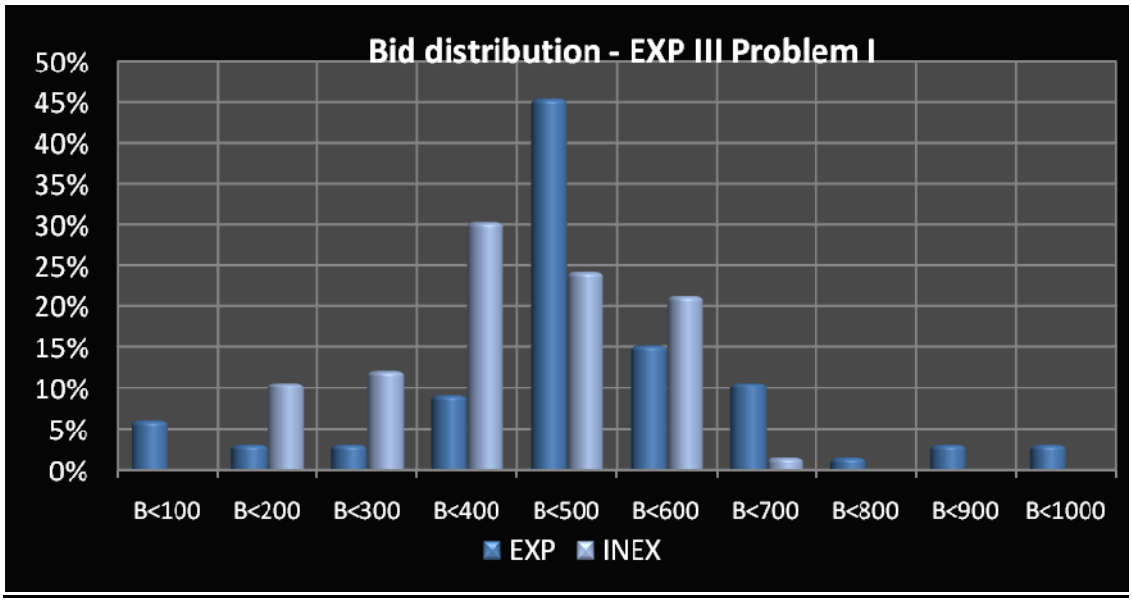
D.1: SL Distribution in Exp I



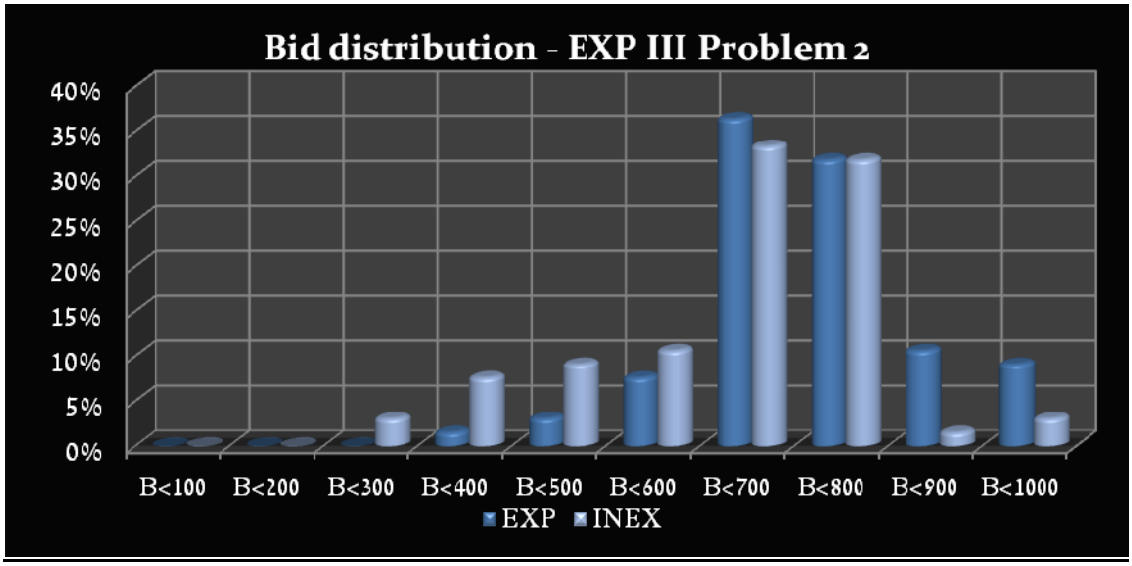
D.2: SL Distribution in Exp II

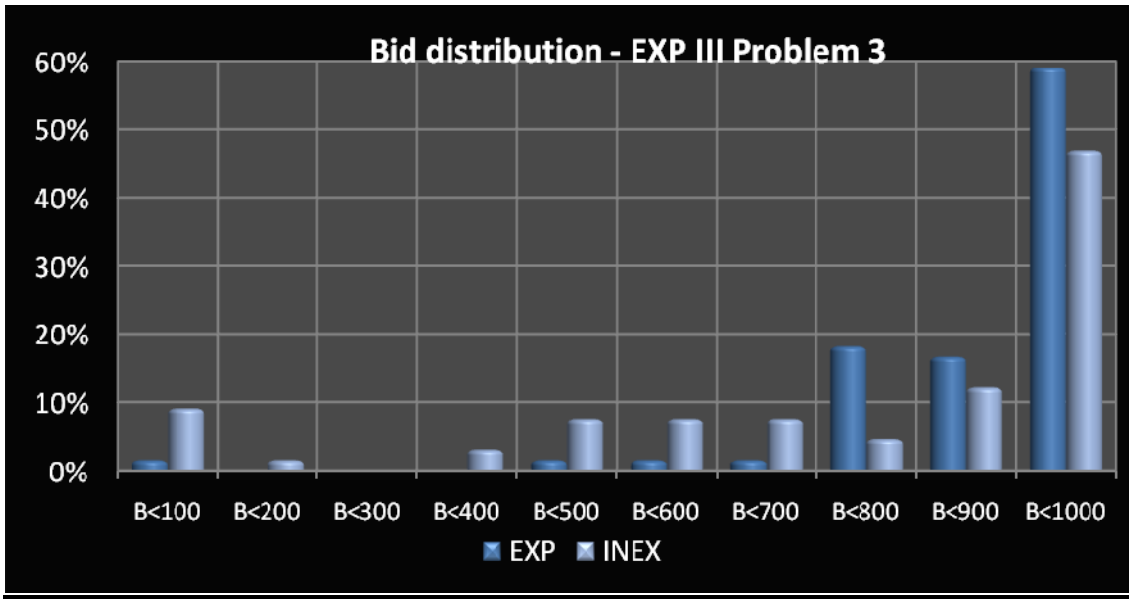


D.3: Bid Distributions (by Problem) in Exp III [2]



[2] Recall that bids in exp III could take any value between 0 to 1000; we therefore approximate the distributions in bins of 100 (detailed individual-level comparisons and sign-test significance are provided in the text). In problem 1, two subjects submitted bids of 0 in EXP (see histogram); assimilation to menu is clearly strengthened when these outliers are removed. The histograms for the casino problem compare the bids of all 66 participants- including those that have selected "other" slot-machines. The data for the subjects that chose the designated machines is summarized in the text.


Bid distribution - EXP III Problem 2
40%
35%
30%
25%
20%
15%
10%
5%
0%
B<100
B<200
B<300
B<400
B<500
B<600
B<700
B<800
B<900
B<1000
EXP
INEX


Bid distribution - EXP III Problem 3
60%
50%
40%
30%
20%
10%
0%
B<100
B<200
B<300
B<400
B<500
B<600
B<700
B<800
B<900
B<1000
EXP
INEX