A Instructions

Introduction

You are about to participate in a decision process in which an imaginary object will be auctioned off for each group of participants in each of 30 rounds. This is part of a study intended to provide insight into certain features of decision processes. If you follow the instructions carefully and make good decisions you may earn a bit of money. You will be paid in cash at the end of the experiment.

During the experiment, we ask that you please do not talk to each other. If you have a question, please raise your hand and an experimenter will assist you.

You may refuse to participate in this study. You may change your mind about being in the study and quit after the study has started.

Procedure

In each of 30 rounds, you will be *randomly* matched with one other participant into a group. Each group has two bidders. You will not know the identity of the other participant in your group. Your payoff each round depends ONLY on the decisions made by you and the other participant in your group.

In each of 30 rounds, each bidder's value for the object will be randomly drawn from 1 of 2 distributions:

High value distribution: If a bidder's value is drawn from the high value distribution, then

- with 25% chance it is randomly drawn from the set of integers between 1 and 50, where each integer is equally likely to be drawn.
- with 75% chance it is randomly drawn from the set of integers between 51 and 100, where each integer is equally likely to be drawn.

For example, if you throw a four-sided die, and it shows up 1, your value will be equally likely to take on an integer value between 1 and 50. If it shows up 2, 3 or 4, your value will be equally likely to take on an integer value between 51 and 100.

Low value distribution: If a bidder's value is drawn from the low value distribution, then

- with 75% chance it is randomly drawn from the set of integers between 1 and 50, where each integer is equally likely to be drawn.
- with 25% chance it is randomly drawn from the set of integers between 51 and 100, where each integer is equally likely to be drawn.

For example, if you throw a four-sided die, and if it shows up 1, 2 or 3, your value will be equally likely to take on an integer value between 1 and 50. If it shows up 4, your value will be equally likely to take on an integer value between 51 and 100.

Therefore, if your value is drawn from the high value distribution, it can take on any integer value between 1 and 100, but it is three times more likely to take on a higher value, i.e., a value between 51 and 100.

Similarly, if your value is drawn from the low value distribution, it can take on any integer value between 1 and 100, but it is 3 times more likely to take on a lower value, i.e., a value between 1 and 50.

In each of 30 rounds, each bidder's value will be randomly and independently drawn from the high value distribution with 30% chance, and from the low value distribution with 70% chance. You will not be told which distribution your value is drawn from. The other bidders' values might be drawn from

a distribution different from your own. In any given round, the chance that your value is drawn from either distribution does not affect how other bidders' values are drawn.

Each round consists of the following stages:

Bidders are informed of their private value, and then each bidder will simultaneously and independently submit a bid, which can be any integer between 1 and 100, inclusive.

The bids are collected in each group and the object is allocated according to the rules of the auction explained in the next section.

Bidders will get the following feedback on their screen: your value, your bid, the winning bid, whether you got the object, and your payoff.

The process continues.

Rules of the Auction and Payoffs

In each round,

- if your bid is greater than the other bid, you get the object and pay your bid:

  Your Payoff = Your Value - Your Bid;

- if your bid is less than the other bid, you don't get the object:

  Your Payoff $= 0$**.**

- if your bid is equal to the other bid, the computer will break the tie by flipping a fair coin. Such that:

  with 50% chance you get the object and pay your bid:

  Your Payoff = Your Value - Your Bid;

  with 50% chance you don't get the object:

  Your Payoff $= 0$.

There will be 30 rounds. There will be 2 practice rounds. From the first round, you will be paid for each decision you make.

Your total payoff is the sum of your payoffs in the 30 "real" rounds.

The exchange rate is \$1 for 13 points.

We encourage you to earn as much cash as you can. Are there any questions?

Review Questions: Please raise your hand if you have any questions. After 5 minutes we will go through the answers together.

1. Suppose your value is 60 and you bid 62.
   If you get the object, your payoff =.
   If you don't get the object, your payoff =.
2. Suppose your value is 60 and you bid 60.
   If you get the object, your payoff =.
   If you don't get the object, your payoff =.

3. Suppose your value is 60 and you bid 58.

   If you get the object, your payoff =.

   If you don't get the object, your payoff =.

4. In each of 30 rounds, each bidder's value will be randomly and independently drawn from the high value distribution with % chance.

5. Suppose your value is drawn from the low value distribution. With what % chance is the other bidder's valuation also drawn from the low distribution?

6. True or False:

   If a bidder's value is 25, it must have been drawn from the low distribution.

   If a bidder's value is 60, it must have been drawn from the high distribution.

   You will be playing with the same two participants for the entire experiment.

   A bidder's payoff depends only on his/her own bid.

In the 2010 wave of the experiment, we collect additional demographic information on sex life, life-style, dietary preferences etc. not used in this study. Some of this information is used in Schipper (2011a, b).