

## **Holt, C. A. and Laury, S. K. (2002). Risk aversion and incentive effects. American economic review**

### *Instructions for the Low-Payoff Treatment*

Your decision sheet shows ten decisions listed on the left. Each decision is a paired choice between "Option A" and "Option B". You will make ten choices and record these in the final column, but only one of them will be used in the end to determine your earnings. Before you start making your ten choices, please let me explain how these choices will affect your earnings for this part of the experiment.

Here is a ten-sided die that will be used to determine payoffs; the faces are numbered from 1 to 10 (the "0" face of the die will serve as 10.) After you have made all of your choices, we will throw this die twice, once to select one of the ten decisions to be used, and a second time to determine what your payoff is for the option you chose, A or B, for the particular decision selected. Even though you will make ten decisions, only one of these will end up affecting your earnings, but you will not know in advance which decision will be used. Obviously, each decision has an equal chance of being used in the end.

Now, please look at Decision 1 at the top. Option A pays 200 pennies if the throw of the ten sided die is 1, and it pays 160 pennies if the throw is 2-10. Option B yields 385 pennies if the throw of the die is 1, and it pays 10 pennies if the throw is 2-10. The other Decisions are similar, except that as you move down the table, the chances of the higher payoff for each option increase. In fact, for Decision 10 in the bottom row, the die will not be needed since each option pays the highest payoff for sure, so your choice here is between 200 pennies or 385 pennies.

To summarize, you will make ten choices: for each decision row you will have to choose between Option A and Option B. You may choose A for some decision rows and B for other rows, and you may change your decisions and make them in any order. When you are finished, we will come to your desk and throw the ten-sided die to select which of the ten Decisions will be used. Then we will throw the die again to determine your money earnings for the Option you chose for that Decision. Earnings (in pennies) for this choice will be added to your previous earnings, and you will be paid all earnings in cash when we finish.

So now please look at the empty boxes on the right side of the record sheet. You will have to write a decision, A or B in each of these boxes, and then the die throw will determine which one is going to count. We will look at the decision that you made for the choice that counts, and circle it, before throwing the die again to determine your earnings for this part. Then you will write your earnings in the blank at the bottom of the page. Are there any questions? Now you may begin making your choices. Please do not talk with anyone while we are doing this; raise your hand if you have a question.

### *Additional instructions for the hypothetical high-payoff condition:*

Now, we will provide you with the chance to make another choice, with much higher potential payoffs, as you can see from the sheet we are passing around. The difference between this part and all other decisions you have made and will make is that all payoffs from this round are hypothetical and will not be paid to you. The procedures are exactly as before, after you make your ten decisions, we throw the die once to determine which decision is to be used, and then we throw the die to determine the payoff for that decision.

Even though the earnings from this next choice larger, they are only hypothetical, and we would like for you to initial the statement at the top of the page indicating that you understand you will not be paid for the choice on that page. All other choices tonight will count towards your earnings. Let me reiterate that your choice in this part has no effect on your earnings and has no effect on what choices will be given to you subsequently; but we are interested in what you would do if you actually faced these choices, so please think about them carefully.

*Additional instructions for the high-money-payoff condition:*

Now, we will provide you with the chance to make another choice, with much higher potential payoffs, as you can see from the sheet we are passing around. As always, we will pay you the exact amount you earn in this part, and we have the cash required. If you choose to participate in this round, we will not pay you what you just earned in the Option A/B choice that you just finished, i.e. you can choose which one you want to count, and to be added to your earnings from all previous parts. The procedures are exactly as before, after you make your ten decisions, we throw the die once to determine which decision is to be used, and then we throw the die to determine the payoff for that decision.

Even though the earnings from this next choice may be very large, they may also be small, and differences between people may be large, due to choice and chance. Thus we realize that some people may prefer not to participate, and if so, just indicate at the top of the sheet. Its up to you. Let me reiterate that if you decide to have this next round count, your earnings will be added to those of all previous parts up to now, except for the Option A/B part just finished, and the total will be paid to you in cash tonight. Since the throw of dice is so important in this next round, we will use a cup to shake it, and the throw only counts if it stays on your table. If you decide to participate, please initial the top line of the decision sheet and cross out the earnings you just received in the previous Option A/B exercise just completed. Let me reiterate, even though some of the payoffs are quite large, there is no catch or chance that you will lose any money that you happen to earn in this part. We are prepared to pay you what you earn. Are there any questions?