APPENDICES

Appendix 1: All Studies Included in Table 1

This table lists all studies appearing in Table 1. The experiments appearing in bold print are those that reported a WTP-WTA gap. The others reported no gap.

	Experiment	*Issue Under Investigation*	*Commodity*	*Subject Pool*	*Cash to buyers*	*Measurement Technique*
1	**Knetsch et al. (1984) Test 1**	**Does the WTP-WTA gap persist in the lab?**	**Lottery for goods worth $70 or $50 cash**	**Students**	**No, but credit arranged**	**χ^2 on # with WTP/WTA at more/less than $2**
2	**Knetsch et al. (1984) Test 2**	**What happens if subjects are provided with experience?**	**Lottery for goods worth $15 or $10 cash**	**Students**	**No, but credit arranged**	**χ^2 on # with WTP/WTA at more/less than $2**
3	**Knetsch et al. (1984) Test 3**	**Robustness check: Different subjects**	**Lottery for goods worth $70 or $50 cash**	**Part-time executive program students**	**$3**	**χ^2 on # with WTP/WTA at more/less than $3**
4	Knetsch et al. (1984) Test 4	Robustness check: Different parameters	Lottery for goods worth $70 or $50 cash	Part-time executive program students	$2, $3 or $4	χ^2 on # with WTP/WTA at more/less than set amount
5	**Coursey et al. (1987) Part 1**	**Effect of elicitation mechanism on the WTP-WTA gap**	**Right to avoid bitter tasting liquid**	**Undergrad business students**	**None**	**One-tailed rank sum test**
6	**Coursey et al. (1987) Part 2**	**Effect of elicitation mechanism on the WTP-WTA gap**	**Right to avoid bitter tasting liquid (students sampled)**	**Undergrad business students**	**None**	**One-tailed rank sum test**
7	Coursey et al. (1987) Part 3	Effect of elicitation mechanism on the WTP-WTA gap	Right to avoid bitter tasting liquid	Undergrad business students	$10	One-tailed rank sum test

8	**Brookshire et al. (1987)**	**Effect of different elicitation devices**	**Increase in park tree density**	**Residents near park**	**N/A**	**Unspecified**
9	**Brookshire et al. (1987)**	**Effect of different elicitation devices**	**Increase in park tree density**	**Residents near park**	**N/A**	**Unspecified**
10	**Brookshire et al. (1987)**	**Effect of different elicitation devices**	**Increase in park tree density**	**Residents near park**	**Everyone received $15; in addition some buyers received additional $15 or $30**	**Unspecified**
11	Harless (1989)	Effect of truthful revelation mechanism and announcing dominant strategy to subjects	Lottery tickets (some with expected value > 0, some with expected value < 0)	Unspecified	Everyone received $10 and lottery tickets	Nonparametric test (sign test) on ratio of WTP:WTA (within subject comparisons)
12	**Knetsch (1989) Test 1**	**Direct test of reversibility of indifference curves**	**Mugs and candy**	**Students**	**N/A**	**Observation of proportion wanting to trade**
13	**Knetsch (1989) Test 2**	**Test of symmetry of exchange preferences**	**1/2 given 2 candy bars worth $2 each; 1/2 given cash**	**Economics students**	**N/A**	**χ^2 test**
14	**Kahneman et al. (1990) Experiments 1&2**	**To establish baseline and test of effect of the commodity on results**	**Mugs and pens (price tags visible on pens)**	**Advanced undergrad law and economics students**	**No, but credit arranged**	**If number of trades was less than ½, then WTP-WTA gap reported**
15	**Kahneman et al. (1990) Experiment 3**	**Does the list elicitation method affect the result?**	**Pens**	**Undergrad economics students**	**None (buyers used own money to buy)**	**If number of trades was less than ½, then WTP-WTA gap reported**
16	**Kahneman et al. (1990) Experiment 4**	**Effect of binding rounds**	**Pens**	**Undergrad economics students**	**None (buyers used own money to buy)**	**If number of trades was less than ½, then WTP-WTA gap reported**

17	**Kahneman et al. (1990) Experiment 5**	**Test whether subjects misstate true preferences in an attempt to manipulate the clearing price**	**Mugs**	**Business statistics students**	**None (buyers used own money to buy)**	**If number of trades was less than ½, then WTP-WTA gap reported**
18	**Kahneman et al. (1990) Experiments 6&7**	**Exp 6: Is gap caused by reluctance to sell or reluctance to buy (control for wealth effects) Exp 7: Does leaving price tag on the good matter?**	**Mug (price tags left on mugs for experiment 7)**	**Undergrad students**	**None (buyers used own money to buy)**	**If number of trades was less than ½, then WTP-WTA gap reported**
19	**Singh (1991) Test 1 before learning**	**Does learning through a market reduce the WTP-WTA gap?**	**Lottery ticket: (1/2, $1, 1/2 $2)**	**Civil servants**	**$3 OR 2 lottery tickets OR $1.50 + 1 lottery ticket**	**Dixon and Mood sign test (nonparametric)**
20	Singh (1991) Test 2 before learning	Does learning through a market reduce the WTP-WTA gap?	Lottery ticket: (1/2, $1, 1/2 $2)	Grad/ undergrad students	$3 OR 2 lottery tickets OR $1.50 + 1 lottery ticket	Dixon and Mood sign test (nonparametric)
21	Singh (1991) Tests 1 and 2 after learning	Does learning through a market reduce the WTP-WTA gap?	Lottery ticket: (1/2, $1, 1/2 $2)	Civil servants AND grad/ undergrad students	$3 OR 2 lottery tickets OR $1.50 + 1 lottery ticket	Dixon and Mood sign test (nonparametric)
22	**Boyce et al. (1992)**	**Why do hypothetical environmental survey results differ from lab results?**	**Norfolk Island pine tree**	**University staff members**	**Buyers endowed with $40; sellers with tree + $30**	**Nonparametric tests (Wilcoxon rank sum)**
23	**Dubourg et al. (1994)**	**What is the effect of imprecise preferences on the WTP-WTA gap?**	**Increased road safety**	**Random sample of public**	**No**	**Observation of announcements by subjects and ratios of WTA:WTP**

24	**Loewenstein and Issacharoff (1994; exp 1)**	**Do people value objects more highly when they obtain them due to exemplary performance at a task?**	**Mugs**	**Students in executive education classes**	**N/A**	**t tests and ANOVA**
25	Loewenstein and Issacharoff (1994; exp 2)	Do people value objects more highly when they obtain them due to exemplary performance at a task?	Mugs	Students in executive education classes	N/A	t tests and ANOVA
26	**Shogren et al. (1994; Stage 1, round 1)**	**Does degree of substitution drive the WTP-WTA gap?**	**Candy bars (market good)**	**Undergrad and grad students recruited campus-wide**	**Buyers endowed with inferior good + cash**	**One-tailed t test; Mann-Whitney U test (nonparametric)**
27	Shogren et al. (1994; Stage 1, rounds 2-5)	Does degree of substitution drive the WTP-WTA gap?	Candy bars (market good)	Undergrad and grad students recruited campus-wide	Buyers endowed with inferior good + cash	One-tailed t test; Mann-Whitney U test (nonparametric)
28	**Shogren et al. (1994; stage 2)**	**Does degree of substitution drive the WTP-WTA gap?**	**Safer food (non-market good)**	**Undergrad and grad students recruited campus-wide**	**Buyers endowed with inferior good + cash**	**One-tailed t test; Mann-Whitney U test (nonparametric)**
29	Shogren et al. (1994; no available substitutes)	Does degree of substitution drive the WTP-WTA gap?	High quality school mug and low quality plastic mug	Undergrad and grad students recruited campus-wide	Buyers endowed with inferior good + cash	One-tailed t test; Wilcoxon rank-sum test (nonparametric)

30	Shogren et al. (1994; available substitutes)	Does degree of substitution drive the WTP-WTA gap?	High quality school mug and low quality plastic mug	Undergrad and grad students recruited campus-wide	Buyers endowed with inferior good + cash	One-tailed t test; Wilcoxon rank-sum test (nonparametric)
31	**Franciosi et al. (1996; exp 1)**	**Effect on WTP-WTA gap of elimination of buyer/seller/ price language?**	**Mugs (price tag removed)**	**Unspecified**	**Buyers earned money from previous exp ($8.75 to $44.50)**	**t test**
32	Morrison (1997; Part 1)	Do wealth effects matter?	Candy (subjects told they could purchase the candy at a shop nearby for 33 pence)	Experimental economics students	4 pounds to every subject (show up fee)	Mann-Whitney U test and t test
33	**Morrison (1997; Part 2)**	**Do wealth effects matter?**	**Mugs (subjects told they could purchase the mug nearby for 1.90 pounds)**	**Buyers from Part 1 became sellers and sellers from Part 1 became buyers**	**Cash equal to mean WTA value from another experiment**	**Mann-Whitney U test and t test**
34	**Bateman et al. (1997; exp 1)**	**Does incentive compatible elicitation device change results?**	**Coke (familiar good)**	**Undergrads and post-docs**	**All subjects endowed with goods and cash**	**Unspecified**
35	**Bateman et al. (1997; exp 2)**	**Does incentive compatible elicitation device change results?**	**Premium chocolate candy (unfamiliar good)**	**Undergrads and post-docs**	**All subjects endowed with goods and cash**	**Unspecified**
36	Arlen et al. (2002)	Is the WTP-WTA gap robust to agency relationship?	Mugs (with price tags)	First year law students	$5 to all subjects	random-effects logit model
37	**Shogren et al. (2001; BDM)**	**What is the impact of different auction mechanisms on the WTP-WTA gap?**	**Candy bars and mugs (no price tags)**	**Students**	**$15 to all buyers**	**t test and Mann-Whitney U test**

38	Shogren et al. (2001; Vickrey)	What is the impact of different auction mechanisms on the WTP-WTA gap?	Candy bars and mugs (no price tags)	Students	$15 to all buyers	t-tests and Mann-Whitney U-test
39	**Bateman et al. (2001)**	**Do subjects feel loss aversion with respect to potential money outlays?**	**Vouchers for luxury chocolates (easy to get from store); sample chocolates were displayed**	**Undergrads**	**No; subjects required to bring cash but did not have to spend it**	**Mann-Whitney U test on ratio of WTA/WTP using geometric means**

Appendix 2: Instructions Viewed by Subjects for KKT Replication

Note that the seller instructions are identical except for the obvious adjustments. Also, the second hypothetical round was identical to the first hypothetical round except that that token value changed.

INSTRUCTIONS

This is an experiment in individual decision making. Our purpose is to study technical issues involved in decision making. Various research foundations have provided funds for this research. We will conduct two hypothetical rounds and one paid round.

ROUND 1 (hypothetical)

In this market the objects being traded are tokens. You are a buyer, so you have an opportunity to buy a token which has a value to you of $_____. It has this value to you because the experimenter will give you this much money for it. The value of the token is different for different individuals.

For each of the prices listed below, please indicate whether you prefer to: (1) Buy a token at this price and cash it in for the sum of money indicated above, or (2) Not buy a token at this price.

After you have finished, one of the prices listed below will be selected at random and any exchanges will take place at that price. If you have indicated you will buy at this price you will receive a token and will pay this amount of money; if you have indicated that you will not buy a token at this price then no exchange will be made and you do not pay anything.

Notice the following two things:
(1) Your decision can have no effect on the price actually used because the price will be selected at random.
(2) It is in your interest to indicate your true preferences at each of the possible prices listed below.

For each price indicate your decision by marking an X in the appropriate column.

	I Will Buy The Token	I Will Not Buy The Token
If the price is $0.00	_____	_____
If the price is $0.50	_____	_____
If the price is $1.00	_____	_____
If the price is $1.50	_____	_____
If the price is $2.00	_____	_____
If the price is $2.50	_____	_____
If the price is $3.00	_____	_____
If the price is $3.50	_____	_____
If the price is $4.00	_____	_____
If the price is $4.50	_____	_____
If the price is $5.00	_____	_____
If the price is $5.50	_____	_____
If the price is $6.00	_____	_____
If the price is $6.50	_____	_____
If the price is $7.00	_____	_____
If the price is $7.50	_____	_____
If the price is $8.00	_____	_____
If the price is $8.50	_____	_____
If the price is $9.00	_____	_____
If the price is $9.50	_____	_____

WAIT FOR INSTRUCTIONS

ROUND 2

(identical to Round 1 using different token value)

ROUND 3

You now do not own a mug. You have the option of buying one to take home by paying money for it.

For each of the possible prices listed below, please indicate whether you wish to: (1) Pay that amount of money and buy a mug, or (2) Not buy a mug at this price.

After you have finished, one of the prices listed below will be selected at random and any exchanges will take place at that price. If you have indicated you will buy at this price you will

receive a mug and will pay this amount of money; if you have indicated that you will not buy a mug at this price then no exchange will be made and you do not pay anything.

Notice the following two things:
(1) Your decision can have no effect on the price actually used because the price will be selected at random.
(2) It is in your interest to indicate your true preferences at each of the possible prices listed below.

For each price indicate your decision by marking an X in the appropriate column.

	I Will Buy The Mug	I Will Not Buy The Mug
If the price is $0.00	_____	_____
If the price is $0.50	_____	_____
If the price is $1.00	_____	_____
If the price is $1.50	_____	_____
If the price is $2.00	_____	_____
If the price is $2.50	_____	_____
If the price is $3.00	_____	_____
If the price is $3.50	_____	_____
If the price is $4.00	_____	_____
If the price is $4.50	_____	_____
If the price is $5.00	_____	_____
If the price is $5.50	_____	_____
If the price is $6.00	_____	_____
If the price is $6.50	_____	_____
If the price is $7.00	_____	_____
If the price is $7.50	_____	_____
If the price is $8.00	_____	_____
If the price is $8.50	_____	_____
If the price is $9.00	_____	_____
If the price is $9.50	_____	_____

WAIT FOR INSTRUCTIONS

Appendix 3: Instructions for Plott/Zeiler Experiment

1 Set Up

Prior to the beginning of the experiment, the experimenter placed an example of a buyer information sheet and a seller information sheet on the board. The subject's offer, fixed offer, lottery outcome and payout calculation were left blank. In addition, a table indicating the frequency of digits (0-9) appearing in the random number table used to generate the fixed offers was placed on the board. For example,

Table 1: Evidence Presented to Subjects to Show Random Nature of Random Number Generator

	0	1	2	3	4	5	6	7	8	9	Total
# of observations	22	21	21	19	12	23	16	22	19	25	200
Frequency	11%	10.5%	10.5%	9.5%	6%	11.5%	8%	11%	9.5%	12.5%	100%

Table 1 shows the breakdown of the first 200 digits of the random number table used to generate fixed offers. If the table is indeed random each digit should be observed 10% of the time. The table is used to provide evidence to the subjects that the fixed offers are truly random.

Table 2 indicates the lotteries by round and the range of the fixed offers. To reduce the variance in expected payouts, two different sets of lotteries were used. Subjects were split into two equally sized groups, Type A and Type B, as indicated below. For the experiment without binding outcome experiences, the mug round occurred before any of the lottery rounds, so the lotteries were used in rounds 2-15 rather than 1-14. The order of the lotteries was the same as in the experiments with binding outcome experiences.

Table 2: Lotteries by Round

Round #	Lottery for Type A	Lottery for Type B	Range for Fixed Offer
Round 1	(0.5, .20, 0.5, .20)	(0.5, .20, 0.5, .20)	[0.00 – 0.99]
Round 2	(0.5, .35, 0.5, .35)	(0.5, .35, 0.5, .35)	[0.00 – 0.99]
Round 3	(0.3, .70, 0.7, -.20)	(0.3, -.20, 0.7, .70)	[0.00 – 0.99]
Round 4	(0.5, .30, 0.5, .30)	(0.5, .30, 0.5, .30)	[0.00 – 0.99]
Round 5	(0.5, .45, 0.5, .45)	(0.5, .45, 0.5, .45)	[0.00 – 0.99]
Round 6	(0.3, .80, 0.7, -.10)	(0.3, -.10, 0.7, .80)	[0.00 – 0.99]
Round 7	(0.7, 7.00, 0.3, 0.00)	(0.7, 0.00, 0.3, 7.00)	[0.00 – 8.00]
Round 8	(0.4, 5.00, 0.6, 0.00)	(0.4, 0.00, 0.6, 5.00)	[0.00 – 6.00]
Round 9	(0.5, 8.00, 0.5, -4.00)	(0.5, -4.00, 0.5, 8.00)	[0.00 – 9.00]
Round 10	(0.3, 10.00, 0.7, 0.00)	(0.3, 0.00, 0.7, 10.00)	[0.00 – 11.00]
Round 11	(0.7, 8.00, 0.3, 1.00)	(0.7, 1.00, 0.3, 8.00)	[0.00 – 9.00]
Round 12	(0.4, 6.00, 0.6, 1.00)	(0.4, 1.00, 0.6, 6.00)	[0.00 – 7.00]
Round 13	(0.5, 9.00, 0.5, -3.00)	(0.5, -3.00, 0.5, 9.00)	[0.00 – 10.00]
Round 14	(0.3, 11.00, 0.7, 1.00)	(0.3, 1.00, 0.7, 11.00)	[0.00 – 12.00]

In addition to receiving a show-up fee, subjects were given written instructions, which were read aloud at the beginning of the experiment. The instructions reported below are for the experiments with binding outcomes experiences. Modifications made for the instructions for the experiments without binding outcome experiences are shown in square brackets. The instructions were read aloud to the subjects. The information presented in the footnotes is explanatory for purposes of the paper and was not included in the written instructions.

2 Instructions Viewed By Subjects

Instructions

This is an experiment in individual decision-making. Our purpose is to study technical issues involved in decision-making. Various research foundations have provided funds for this research.

The instructions are simple, and if you follow them carefully and make good decisions, you might earn a considerable amount of money or other things. What you earn will depend on the decisions you make. You will perform a series of buying tasks and a series of selling tasks.

You have received a record and information packet.[1] This is your own private information. Do not share it with anyone. We ask that you do not communicate with other people during the experiment. Please refrain from verbally reacting to events that occur during the experiment. This is very important.

Buying Task:

The **buying task** works as follows. The experimenter will offer an item for sale. Your task is to make an offer for the item and record it on your information sheet. You will also record your offer on a slip of paper and insert it into a box.[2]

As you will see, your best strategy is to determine the maximum you would be willing to pay for the item and offer that amount. It will not be to your advantage to offer more than this maximum, and it will not be to your advantage to offer less. Simply determine the maximum you would be willing to pay and make that amount your offer.

Your offer will be compared to a fixed offer. The fixed offer will be completely unrelated to your offer and to the offers of all other persons in the room.

If your offer is more than or the same as the fixed offer then you buy the item. You had the high offer, so you are the buyer. But, here's the interesting part. **You do not pay the amount you offered**. Instead, you pay the fixed offer, an amount equal to or less than your offer.

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[1] See Sections 3 and 4 for examples of the record and information sheets.

[2] At this point the experimenter explained how the slips would be used in determining the payoffs at the end of the experiment. For each round, the offer recorded on the slip would be compared to the offer recorded in the information and record packet. If the two offers differed, the subject would not be paid for that round. This mechanism prevents the subjects from revising their offers after the experimenter announces the fixed offer and lottery outcome.

Example: if you offer 1,000 and the fixed offer is 950, you have the high offer. You buy the item but pay only 950.

If your offer is less than the fixed offer then you do not buy the item. Instead, you keep your money.

Example: if you offer 1,000 and the fixed offer is 1,020, you do not have the high offer. Therefore, you do not buy the item. You keep your money.

As a buyer, you should offer exactly the **maximum amount you would be willing to pay** in exchange for the item being sold.

Remember, there are no advantages to strategic behavior. Your best strategy is to determine your personal value for the item and record that value as your offer. There is not necessarily a "correct" value. Personal values can differ from individual to individual.[3]

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[3] At this point, the experimenter drew the subjects' attention away from the printed instructions to explain how to arrive at their actual WTP amounts and why responding with actual WTP is the best strategy. The experimenter provided the following example and explanation:

> "Imagine that I am a buyer and Item A is up for sale. How do I know what amount is the maximum I'd be willing to pay for Item A?
>
> Start with 1 cent. Would I be willing to pay 1 cent for the item? If so, then increase the amount to 2 cents. If I'm willing to pay 2 cents, then increase further. I keep increasing until I come to an amount that makes me indifferent between keeping the money and getting Item A.
>
> Example. Would I pay $1 for A? Yes. Would I pay $2 for A? Yes. Would I pay $5 for A? Yes. Would I pay $6 for A? No, not $6. So I need to decrease. Would I pay $5.50? No, not that much. How about $5.25? I don't care whether I end up with $5.25 or the item. Then that is the maximum I'd be willing to pay for Item A. I'll record that number on my information sheet.
>
> The key to determining the maximum you'd be willing to pay is remembering that you will not pay the amount you bid. Instead, if you pay anything, you will pay the fixed amount.
>
> Why is my best strategy to bid the maximum I'd be willing to pay? Let's go back to the example:
>
> Say that I decide that the maximum I'd be willing to pay for Item A is $5.25.
>
> What happens if I bid less than $5.25? Say I bid $5.
>
> If the fixed offer is, say, $5.10, then I don't get the item. Had I bid $5.25, I would have received the item and had to pay only $5.10 for an item that I think is worth $5.25. I lose out.
>
> What happens if I bid higher than $5.25? Say I bid $5.50.
>
> If the fixed amount is $5.45, then I have to pay $5.45 for an item that I really think is worth only $5.25. I lose out.

After discussing the example, the experimenter encouraged and addressed questions from subjects. After answering questions, the experimenter drew the subjects' attention back to the instructions.

Selling Task:

The **selling task** works as follows. The experimenter wishes to buy an item that you own. Your task is to make an offer for the item and record it on your information sheet. You will also record your offer on a slip of paper and insert it into a box.

As you will see, your best strategy is to determine the minimum you would be willing to accept for the item and offer that amount. It will not be to your advantage to offer more than this minimum, and it will not be to your advantage to offer less. Simply determine the minimum you would be willing to accept and make that amount your offer.

Your offer will be compared to a fixed offer. The fixed offer will be completely unrelated to your offer and to the offers of all other persons in the room.

If your offer is less than or the same as the fixed offer then you sell the item. You had the low offer, so you are the seller. But, here's the interesting part. **You do not receive your offer**. Instead, you receive the fixed offer, a price higher than your offer.

Example: if you offer 1,000 and the fixed offer is 1,020, you have the low offer. You sell the item and you receive the fixed offer of 1,020.

If your offer is more than the fixed offer then you do not sell your item. You keep the item.

Example: if you offer 1,000 and the fixed offer is 950, you do not have the low offer. Therefore, you do not sell the item.

As a seller, you should offer the **minimum amount you would be willing to accept** in exchange for the item you own.

Just as you saw in the case of the buying task, there are no advantages to strategic behavior in the selling task. Your best strategy is to determine your personal value for the item and record that value as your offer. There is not necessarily a "correct" value. Personal values can differ from individual to individual.[4]

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[4] At this point, the experimenter drew the subjects' attention away from the printed instructions to explain how to arrive at their actual WTA amounts and why responding with actual WTA is the best strategy. The experimenter provided the following example and explanation:

> "Imagine that I am a seller and I own Item B. How do I know what amount is the minimum I'd be willing to accept to give up Item B?
>
> Start with $100. Would I be willing to give up Item B in exchange for $100? If so, then decrease the amount to $95. If I'm willing to accept $95 to give up Item B, then decrease further. I keep decreasing until I come to an amount that makes me indifferent between keeping Item B and getting the money.

Information and Record Packets

You have received an information and record packet. One page of the packet will be used for each round. Do not unstaple the pages until instructed to do so.

Note that you will switch between the roles of buyer and seller. Each sheet will indicate the role you will play in each particular round at the top of the page.

The following illustrations will help you understand how to use the packet. Please refer to the cover page of your packet as I go through the illustration on the board.[5]

> Example. Would I accept $10 to give up Item B? Yes. Would I accept $8 for B? Yes. Would I accept $7 for B? Yes. Would I accept $6 for B? No, not $6. So I need to increase. Would I accept $6.50? I don't care whether I end up with $6.50 or Item B. Then that is the minimum I'd be willing to accept for Item B. I'll record that number on my information sheet.
>
> The key to determining the minimum you'd be willing to accept is remembering that you will not receive the amount you ask for. Instead, if you receive anything, you will always get the fixed amount.
>
> Why is my best strategy to bid the minimum I'd be willing to accept? Let's go back to the example:
>
> Say I decide that the minimum I'd be willing to accept for Item B is $6.50.
>
> What happens if I ask for less than $6.50? Say I ask for only $6.
>
> If the fixed amount is, say, $6.25, then I have to sell my item. I lose out because I have to give up Item B which I think is worth $6.50, but I only get $6.25 in exchange.
>
> What happens if I ask for more than $6.50? Say I ask for $7.
>
> If the fixed amount is $6.75, then I do not sell. But, had I bid $6.50, I would have sold the item and received $6.75 for an item that I think is worth only $6.50. I lose out."

After discussing the example, the experimenter encouraged and addressed questions from subjects. After answering questions, the experimenter drew the subjects' attention back to the instructions.

[5] At this point, the experimenter called the subjects' attention to the board where the buyer and seller information sheets were reproduced. The experimenter used the following examples to illustrate the use of the information sheets:

"Each sheet of your packet relating to a buying task is similar to the one on the cover of your packet. The sheet indicates the round number. The item for which you will be making your offer appears next. The items are displayed as lotteries, even though in some cases no real lottery is involved. Let's say the item is a lottery with a 70% chance of receiving 500 and a 30% chance of receiving 1,000.

In each round, you should decide on an offer. This offer will be compared to the fixed offer. You may offer any amount you wish.

How do I decide the maximum I would pay to receive this lottery ticket? I start low. Would I pay 100 for it? Sure. Would I pay 200 for it? Sure. How about 500? Yes. I would definitely pay 500 for it because I will receive 500 at a minimum and have a chance of winning 1,000. Would I pay 1,000 for it? No. I would not give up 1,000 because the ticket may be worth much less than 1,000, but no more than 1,000. So I should choose an amount between 500 and 1,000. The amount I choose may differ from the most some other subject would pay to receive the ticket.

Suppose the buyer decides to offer X for the lottery. He would print 'X' in the box in step one [here the experimenter entered an 'X' in the "my offer" box]. Next, the previously generated fixed offer will be revealed.

You should keep track of your accumulated payments at the bottom of the sheet. Your earnings, which are yours to keep, are all accumulated payments from rounds 1 through 14 and the outcome from round 15. These will be paid to you in cash after the experiment. [**Your earnings, which are yours to keep, will be paid to you in cash after the experiment.**] To receive your earnings, please take the laminated card you received at the beginning of the experiment to Maria in Room 416 of the Law School. There you will be able to exchange your identification card for an envelope containing your earnings. Note that the experimenter will not be able to link any specific subject to a subject identification number. Therefore the experimenter will not know subject

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The fixed offers are in no way connected to your offer or the value of the item. It is literally as if dice were rolled to determine the fixed offer. In order to assure you that the fixed offers are completely unrelated to your offers or your personal value of the item, the fixed offers were generated before the start of the experiment using a random number table. Such a table is designed to ensure that the results are unpredictable. If anyone is interested, on the board you can find the frequency chart for the first 200 digits of the random number table used to generate fixed offers [experimenter explained the table to the subjects]. Also, if anyone is interested in how we generated the fixed offers, please see me after the experiment is complete, and I will explain the process to you in detail.

Now, back to the example. Suppose the fixed offer is 501. The buyer should record this value in the box in step two [experimenter recorded the fixed offer on the board]. Next, the lottery result will be determined [the experimenter explained how the marbles will be used to determine the result and uses the marbles to determine the lottery result here].

Here the lottery result is _____. So, the buyer should circle _____ in step 3 [experimenter circled the appropriate outcome].

In step 4, each buyer will calculate his round payment. In this example, assume the offer of X is more than the fixed offer of 501. He needs to complete only the left hand column in step 4. He buys the lottery ticket. His round payment is equal to the lottery result from step 3 minus the fixed offer, 501. Therefore, his round payment is _____ [experimenter filled in the appropriate blanks on the board].

Alternatively, suppose the buyer offers X, but the fixed offer is 975. Because his offer is less than the fixed offer, he does not buy the item. He has to fill in only the right hand column in step 4. His round payment is $0 [experimenter filled in the appropriate blanks on the board].

Please tear the first page of your packet off the staple at the bottom of the packet and flip to page two. This is the seller information and record sheet.

Consider the seller's task. She owns the ticket at the beginning of the round. Let's say the lottery provides a 70% chance of receiving 1,000 and a 30% chance of receiving 1,000. She must decide the minimum she is willing to receive in exchange for the ticket. Suppose she offers 1,000 (experimenter explains why the subject should be indifferent between the ticket and 1,000). She should print '1,000' in the box in step 1 [experimenter entered '1,000' in the 'my offer' box]. Suppose the fixed offer is 950 and the lottery result is _____[experimenter filled in the appropriate blank on the board and circled the appropriate lottery outcome]. After filling in the appropriate information for steps 2 and 3, she needs to calculate her round payment. In this example, her offer is more than the fixed offer; therefore, she does not sell. She only needs to fill in the right hand column in step 4. She receives the lottery result [experimenter filled in the appropriate blank on the board].

Alternatively, suppose the fixed offer is 1,020. Her offer is now less than the fixed offer; therefore, she sells. She only needs to fill out the left hand column in step 4. Her round payment is equal to the fixed offer. [experimenter filled in the appropriate blank on the board]"

After discussing the examples, the experimenter encouraged and addressed questions from subjects. After answering questions, the experimenter drew the subjects' attention back to the instructions.

payoffs by individual. Also, Maria will not know the amount of any subject's payoff. The payoffs will be given to Maria in envelopes identified with subject numbers. Obtaining your envelope will end your participation in the experiment.

Before we begin, note that the first several rounds involve relatively small payoffs. These rounds are intended to give you practice before you get to the rounds involving significant payoffs.

3 Sample Buyer Record Sheet

The experimenter owns one Round 4 lottery ticket. I will offer to buy the lottery ticket for an amount equal to the maximum I am willing to pay for the ticket.

Round 4

LOTTERY

50% chance of A $ 0.30	50% chance of B $ 0.30

Step 1: decide on my offer — MY OFFER [ ]

Step 2: listen for fixed offer announcement — FIXED OFFER [ ]

Step 3: circle the lottery result

A	**B**
$ 0.30	**$ 0.30**

Step 4: how much did you make? (**FILL IN ONE SIDE ONLY**)

If **MY OFFER** is more than **FIXED OFFER**	If **MY OFFER** is less than **FIXED OFFER**
then, **I BUY**	then, **I DO NOT BUY**
[ ] **(lottery result from step 3)**	**I get:** **$ 0.00**
minus [ ] **(fixed offer from step 2)**	
equals [ ] **(the amount I get)**	

Money made in previous rounds _____

+ / - Money made (lost) in this round _____

= Total (copy to the next page) _____

4 Sample Seller Record Sheet

I own one Round 1 lottery ticket. I will offer to sell the lottery ticket for an amount equal to the minimum I am willing to accept in exchange for the ticket.

Round 1

LOTTERY

50% chance of A $ 0.20	50% chance of B $ 0.20

Step 1: decide on my offer

MY OFFER

[ ]

Step 2: listen for fixed offer announcement

FIXED OFFER

[ ]

Step 3: circle the lottery result

A	**B**
$ 0.20	**$ 0.20**

Step 4: how much did you make? (**FILL IN ONE SIDE ONLY**)

If **MY OFFER** is less than **FIXED OFFER**	If **MY OFFER** is more than **FIXED OFFER**
then, **I SELL**	then, **I DO NOT SELL**
I get: [ ] **(fixed offer from step 2)**	**I get:** [ ] **(lottery result from step 3)**

Money made in previous rounds _____

+ / - Money made (lost) in this round _____

= Total (copy to the next page) _____