web–Appendix A: Additional Data

wA1. By Round

TABLE wAI:
FREQUENCIES OF $b2$ CHOICES

	Good Framework					
	R1	R2	R3	R4	R5	R6
With Reputation	$\frac{151}{240}$	$\frac{159}{240}$	$\frac{163}{240}$	$\frac{154}{240}$	$\frac{153}{240}$	$\frac{106}{240}$
	(63%)	(66%)	(68%)	(64%)	(64%)	(44%)
Without Reputation	$\frac{143}{240}$	$\frac{155}{240}$	$\frac{153}{240}$	$\frac{139}{240}$	$\frac{134}{240}$	$\frac{89}{240}$
	(60%)	(65%)	(64%)	(58%)	(56%)	(37%)
	Bad Framework					
	R1	R2	R3	R4	R5	R6
With Reputation	$\frac{144}{240}$	$\frac{134}{240}$	$\frac{152}{240}$	$\frac{142}{240}$	$\frac{144}{240}$	$\frac{143}{240}$
	(60%)	(56%)	(63%)	(59%)	(60%)	(60%)
Without Reputation	$\frac{115}{240}$	$\frac{116}{240}$	$\frac{111}{240}$	$\frac{108}{240}$	$\frac{94}{240}$	$\frac{99}{240}$
	(48%)	(48%)	(46%)	(45%)	(39%)	(41%)

TABLE wAII:
FREQUENCIES OF $e1$ CHOICES

	Good Framework					
	R1	R2	R3	R4	R5	R6
With Reputation	$\frac{58}{73}$	$\frac{68}{77}$	$\frac{64}{76}$	$\frac{59}{72}$	$\frac{42}{68}$	$\frac{15}{49}$
	(79%)	(88%)	(84%)	(82%)	(62%)	(31%)
Without Reputation	$\frac{39}{67}$	$\frac{46}{74}$	$\frac{42}{72}$	$\frac{43}{65}$	$\frac{36}{59}$	$\frac{9}{46}$
	(58%)	(62%)	(58%)	(66%)	(61%)	(20%)

wA2: Across Sequences

Comparing initial loan giving in the first three sequences with initial loan giving in the last three sequences in all treatments (see Table wAIII below) we find that there seems to be a slight increase in the observed frequency of initial loan giving. However, Sign tests of session level data show that none of these increases are significant. Furthermore, there is no significant correlation between initial loan giving and the sequence number in any of the four treatments.

TABLE wAIII:
INITIAL $b2$ CHOICES ACROSS SEQUENCES

		Framework	
		Bad	Good
With	First 3 Sequences	53% $\frac{38}{72}$	56% $\frac{40}{72}$
Reputation	Last 3 Sequences	61% $\frac{44}{72}$	68% $\frac{49}{72}$
Without	First 3 Sequences	44% $\frac{32}{72}$	49% $\frac{35}{72}$
Reputation	Last 3 Sequences	47% $\frac{34}{72}$	61% $\frac{44}{72}$

web–Appendix B: Instructions

Welcome to the Economic Research Laboratory. This is an experiment in decision making. Texas A&M University has provided funds for this research. During the course of the experiment, you will be called upon to make a series of decisions. If you follow the instructions carefully and make good decisions, you can earn a considerable amount of money which will be paid to you in cash at the end of the experiment.

It is important that you remain silent and do not look at other people's work. If you have any questions, or need assistance of any kind, please raise your hand and an experimenter will come to you. If you talk, laugh, exclaim out loud, etc., you will be asked to leave and you will not be paid. We expect and appreciate your cooperation.

We will first jointly go over the instructions. All figures have been reproduced on the screens in front of the room. After we have read the instructions, you will have time to ask clarifying questions. Please do not touch the computer or its mouse until you are instructed to do so. Thank you.

Participants

There are two groups of 12 people who participate in today's experiment. Each of you has been randomly assigned to a group and to a role which could be either a so-called **B** or **E** participant. You will remain in the same group and same role throughout the entire duration of the experiment. After we have completed reading the instructions you will be informed about your role on your computer screen.

Timing and Pairing

Participants only interact with members of their own group throughout the experiment. In each group there will be 6 participants assigned to a B role and 6 participants assigned to an E role. Furthermore, E participants have been randomly assigned to be either of type **X** or of type **Y**. E participants will be of the same type for the entire duration of the experiment.

The experiment is divided into 10 "**sequences**" of six "**rounds**" each. In each round of a sequence, each B participant will be paired with an E participant of their group. The E participant may be of type X or Y. The B participants will not be informed who they have been paired with and, in particular, they will not know whether they are paired with an E participant of type X or Y. The order in which B participants meet E participants within a sequence has been randomly determined in advance in such a manner that each B participant meets each E participant exactly once during one sequence. This order changes from sequence to sequence.

Within a Sequence

As mentioned earlier, a sequence will consist of six rounds. Each round will proceed as follows: Each B participant is either paired with an E participant of type X or of type Y. Each B participant begins the round by choosing one of two alternatives. These alternatives are labeled $b1$ and $b2$. The choices of the B participants are transmitted to the E participants. Figure 1 illustrates this decision. As you can see, if B's choice is $b1$ there is no decision to be made by the E participant. If the choice of B is $b2$, then E participants can decide between choosing $e1$ or $e2$.

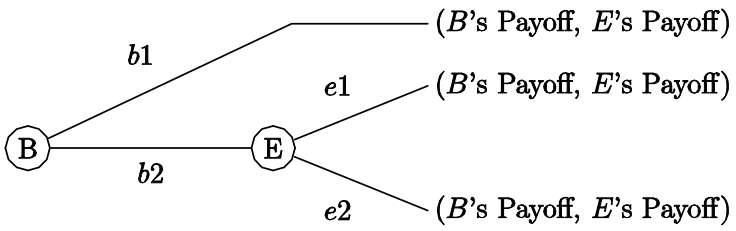


Figure 1: Sequencing of choices

Choices are made by selecting the corresponding alternative on the computer screen and clicking the "OK" button using the mouse (see Figures 2 and 3).

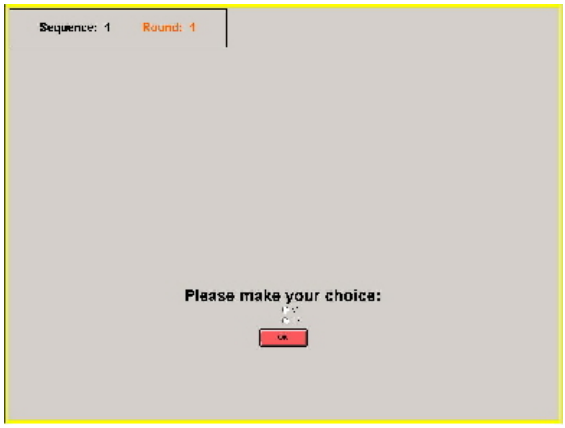


Figure 2: Decision screen of B participants. (The top left-hand side of each computer screen will keep track of the sequence number and the round number within each sequence.)



Figure 3: Decision screen of E participants (after B has chosen $b2$). We will explain the state of the world in a second.

Information

At the beginning of each round (before any choices are made) a computer program will randomly determine whether the state of the world is **N** or **P** with both states being equally likely, i.e., on average 50% of the time the state of the world is N and 50% of the time the state is P. This state of the world is determined for each E separately and can therefore be different for different E participants. Only E participants will be informed about the state of the world (see Figure 3). B participants will not be informed.

After each round, all participants will be informed about their own payoff. Nobody will be informed about the identity or the payoff of the participant they are paired with.

However, at the beginning of each round (starting with round 2 in each sequence) and before B participants make their decisions, each B participant will be informed about **all previous rounds' choices** of the E participant they are paired with in the current round (see Figure 4). They will not be informed about whether the E participant is of type X or of type Y. After six rounds have been completed, a new sequence of six rounds will start. No information will be given about choices and payoffs from previous sequences.

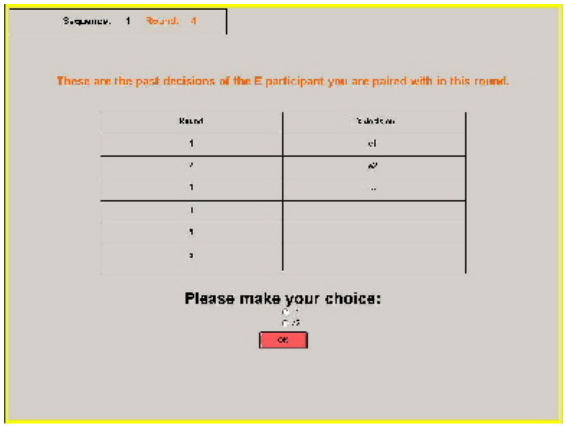


Figure 4: Information to B participants (beginning with round 2 of each sequence)

Determination of your Earnings

In each round, your earnings depend on your choice, the choice of the participant with whom you are paired and the state of the world. Figure 5 describes how your earnings are related to these choices. All earnings are expressed in points. Points will be converted to dollars at the following rate, (1 point $\equiv$\$0.12). At the end of the experiment, your total points from all rounds in all sequences will be converted into dollars at the rate specified above, and will privately be paid to you in cash.

Let's slowly go over Figure 5. The figure is to be read from the left to the right. The first node indicates a random draw of the computer program

that decides whether a B participant will be paired with a E participant of type X or Y in a given round.

At the beginning of each round there will be another random draw that determines whether the state of the world is N or P for each E participant separately. Each state of the world is equally likely, i.e., the probability that the state of the world is N is 50%. E participants will be informed about the state of the world, but B participants will not.

After the state of the world is determined, B participants are asked to make their choice. B participants will not know whether they are paired with an E participant of type X or Y. This is indicated by the dashed lines linking the choice nodes of the B participants. However, B participants will know the past choices of the E participants they are currently paired with. The payoffs that result from the different choice combinations are written at the right hand side of Figure 5 in the following form: (B's payoff, E's payoff).

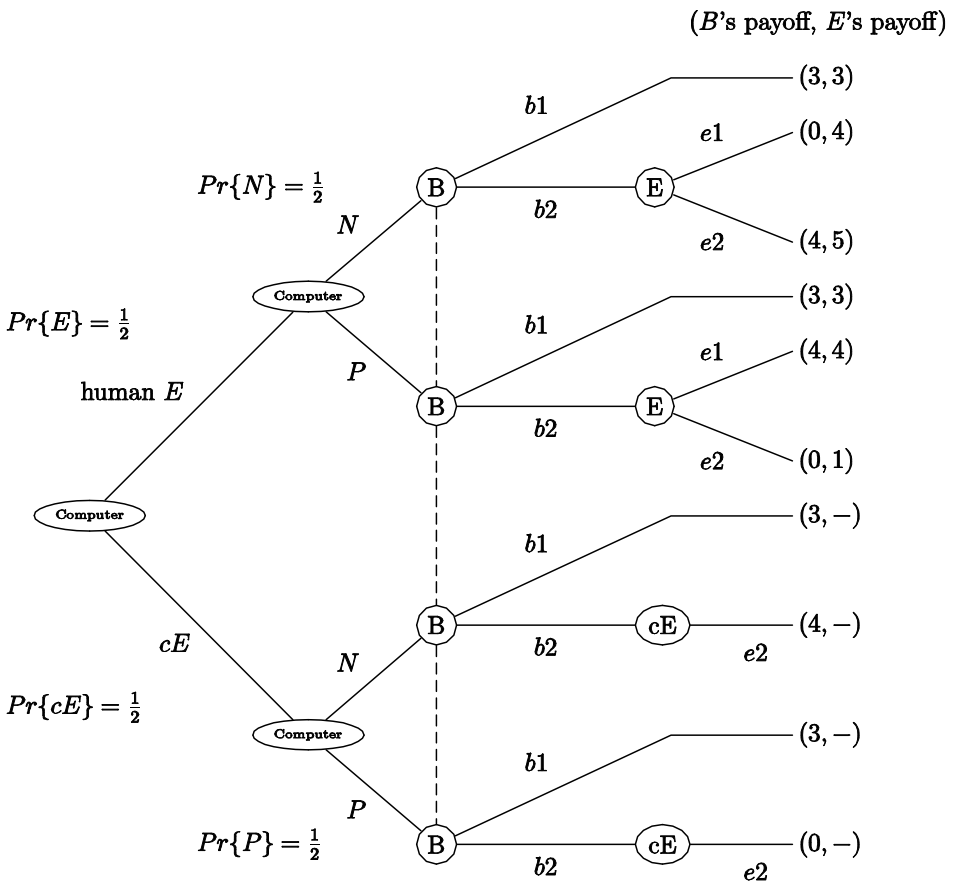


Figure 5: Sequencing of decisions and payoffs within a round

B always chooses first, selecting either $b1$ or $b2$. If B chooses $b1$, then E has no choice, and B and E each earn 3 points. If B chooses $b2$, then an E participant has a choice between $e1$ and $e2$. The payoff that the participants earn will depend on E's choice, the type of the E participant and the state of the world. For example, if E is of type X and the state of the world is N, then when B chooses $b2$ and E chooses $e1$, B will receive 0 points and E will receive 4 points. If instead E chooses $e2$ in the same state, then B will receive 4 points and E will receive 5 points. If the state of the world is P, then when B chooses $b2$ and an X-type E chooses $e1$, B will receive 4 points and E will receive 4 points. If instead E chooses $e2$ in the same state, then B will receive 0 points and E will receive 1 point.

If the E participant is of type Y, and the state of the world is N, then when B chooses $b2$, and E chooses $e1$, B will receive 0 points and E will receive 4 points. If instead E chooses $e2$ in the same state, then B will receive 4 points and E will receive 5 points. However, if the state of the world is P, then when B chooses $b2$ and the Y-type E participant chooses $e1$, B will receive 4 points and E will receive 4 points. If instead E chooses $e2$ then B will receive 0 points and E will receive 5 points.

Summary

1. The experiment consists of 10 sequences.

2. There are two groups of twelve (12) participants each. Each group has six (6) B participants and six (6) E participants. Of the six (6) E participants, three (3) will be of type X and three (3) will be of type Y.

3. Within a sequence:

   (a) There are six (6) rounds.

   (b) Within a round:

   i. Each B participant is paired with a E participant.

   ii. State of the world is determined (separately for each E) and only the E participant is informed about it.

   iii. B participants choose after observing **all** previous choices that the E participant they are currently paired with has made so far within the sequence.

   iv. E participants choose.

   v. Payoffs are determined.

   (c) New pairings of B and E participants.

   (d) Go back to step (b) until each B participant has met six different E participants, and each E participant has met six different B participants.

4. New sequence begins (until 10 sequences are completed).

Please remember not to discuss your role, choices or your results with any other participant between rounds or at any other time during the experiment.

Are there any questions? Please raise your hand and an experimenter will come to you. Do not ask a question out loud. Thank you.

Before we start the experiment, we would like you to answer a few question that are meant to review the rules of today's experiment. Please raise your hand once you are done and an experimenter will attend to you.

1. In which roles can participants in this experiment be?_____
2. Who chooses first? _____
3. How many rounds are in each sequence?_____
4. How often is the state of the world determined in a sequence?_____
5. Suppose you are a B participant and it is your turn to make a choice in round 6. Do you know all the choices that the E participant you are currently paired with has made in rounds 1 through 5? _____ Do you know whether it is an X-type E participant or a Y-type E participant? _____
6. What are the possible payoffs (in points) a B participant can receive if she has chosen $b2$ and the E participant she is matched with has chosen $e1$?_____Which one of these will be realized if the state of the world is P?_____
7. What are the payoffs to the B and E participants if the B participant chooses $b1$?_____

web–Appendix C: One–Shot Instructions

Welcome. This is an experiment in decision making. Texas A&M University has provided funds for this research. During the course of the experiment, you will be called upon to make a series of decisions. If you follow the instructions carefully and make good decisions, you can earn a considerable amount of money which will be paid to you in cash at the end of the experiment.

It is important that you remain silent and do not look at other people's work. If you have any questions, or need assistance of any kind, please raise your hand and an experimenter will come to you. If you talk, laugh, exclaim out loud, etc., you will be asked to leave and you will not be paid. We expect and appreciate your cooperation.

We will first jointly go over the instructions. After we have read the instructions, you will have time to ask clarifying questions.

Participants

All participants in today's experiment have been assigned to one of two roles. You will be either a so-called **decider** or **receiver**. Those of you who picked an even number will be deciders and those of you who picked an odd number will be receivers. Each decider has been randomly paired with a receiver. At no time during and after the experiment will you know with whom you have been paired.

Timing

Deciders will be given six decisions to make. Receivers do not have to make any decision. Deciders will be given their decisions sequentially and each decision is collected before a new one is being made. After all decisions have been made, we will roll a six-sided die twice in order to determine which two of the six decisions are used to determine your payoffs.

Decisions

Each decision will be of the following form: The decider chooses either left or right. By doing so, payoffs to both, the decider as well as the receiver will

be determined. Figure 1 illustrates a typical decision. Choices are made by circling one of the two options, either left or right. Receiver's do not have to make any decisions.

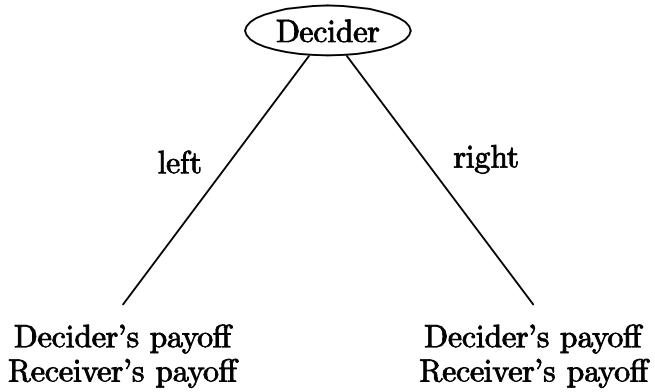
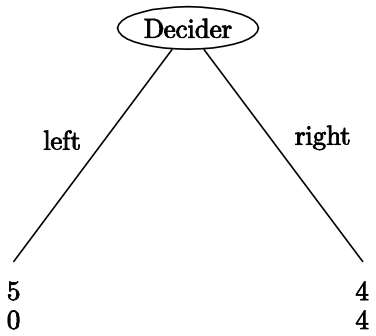


Figure 1: A typical decision

Decision 1 (Deciders)

Please choose either left or right in the following decision. If you choose left, your payoff will be \$5 and that of the receiver you are paired with \$0. If you choose right, then you will receive \$4 and the receiver you are paired with will receive \$4.



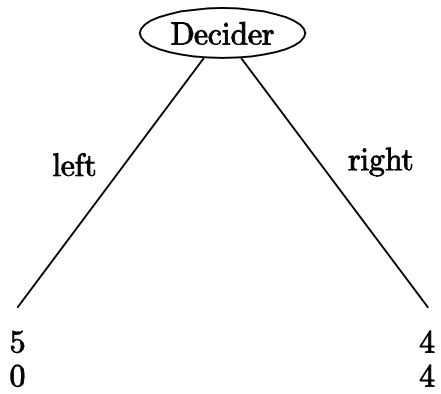
Decision 1

ID _____

Decision 1 (Receivers)

This is the first decision to be made by the decider. For each of their decision we would like to ask you what you think the deciders will be choosing, either left or right.

If the decider chooses left, his/her payoff will be \$5 and your payoff will be \$0. If the decider chooses right, then he/she will receive \$4 and you will receive \$4.



Decision 1