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Inducing good behavior

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C. Instructions “Inducing Good Behavior”

Instructions

Introduction

This is an experiment about decision-making. In the room, there are ten people who are participating in this experiment. You must not communicate with any other participant in any way during the experiment. At the end of the experiment you will be paid in private and in cash. The amount of money you earn will depend on the decisions that you and the other participants make. The experiment consists of two parts, each part consisting of a number of rounds. In each round you can earn points. At the end of the experiment you will be paid according to the sum of your total point earnings from all rounds in both parts at a rate of 0.4 pence per point. You will receive the instructions for the second part after the first part is finished.

Part One

At the beginning of Part One five of the participants will get the role of "employers" and five will get the role of "workers". You will find out whether you are an employer or worker when the decision-making part of the experiment begins. If you are an employer you will remain an employer throughout the first part, and if you are a worker you will remain a worker throughout the first part.

Part One will consist of 40 rounds. In each round the employers will be paired with the workers. Thus, if you are an employer you will be paired with one of the workers, and if you are a worker you will be paired with one of the employers. The people you are paired with will change randomly from round to round.

At the beginning of a round all participants will make their decisions. Employers must choose either INSPECT or NOT INSPECT. Workers must choose either HIGH effort or LOW effort. At the end of the round, after everyone has made their decision, the computer will inform you of the choices made by you and the person you were paired with and your point earnings for the round.

The number of points you earn in a round will depend on the decisions made by you and the

person you are paired with in that round, as described in the tables below:

Employer's point earnings			Worker's point earnings		
	HIGH	LOW		HIGH	LOW
INSPECT	52	12	INSPECT	25	20
NOT INSPECT	60	0	NOT INSPECT	25	40

For example, if the employer chooses NOT INSPECT and the worker chooses LOW the employer earns 0 points and the worker earns 40 points.

In addition, on your screen you will see your accumulated point earnings so far, and a table summarizing the decisions made by all participants in previous rounds. The table will be like the one shown below (although the data in the table has been chosen for illustrative purposes only: in the experiment the data will correspond to the actual decisions made by participants).

Results of last 20 rounds			
	HIGH	LOW	Total
INSPECT	10%	20%	30%
NOT INSPECT	30%	40%	70%
Total	40%	60%	100%

For example, the table tells you that the combination (INSPECT, HIGH) occurred in 10% of the cases, that the employers chose INSPECT in 30% of the cases, and the workers chose HIGH in 40% of the cases. The table is based on the results of the most recent 20 rounds only.

To make sure everyone understands the instructions so far, please complete the questions about Part One below. In a couple of minutes someone will come to your desk to check the answers.

1. Will you be matched with the same person from round to round? ——
2. How many points will you earn in a round if you are an employer, choose NOT INSPECT, and the worker you are matched with chooses HIGH? ——
3. How many points will you earn in a round if you are a worker, choose HIGH, and the employer you are matched with chooses NOT INSPECT? ——
4. Is the following statement true: the screen summarizing the history so far always contains information on all previous rounds ——
5. Is the following statement true: the screen summarizing the history so far contains information on the choices of all 10 participants in the room ——

Part Two

In Part Two you will keep the same role as you had in Part One. Again, you will be matched

with a different person in the other role in each round. Part Two will consist of an additional 80 rounds, starting with round 41 and ending after round 120. Your decisions together with the decisions of the people that you will be matched with will determine your earnings that will be added to your total earnings in points from Part One. At the beginning of a round, employers must again choose either INSPECT or NOT INSPECT, while workers must choose either HIGH effort or LOW effort. At the end of the round, the computer will inform you of the outcome of the round for you and the person you are paired with.

[CONTROL: The point earnings that the employer and worker receive in each of the four cases (INSPECT, HIGH); (INSPECT, LOW); (NOT INSPECT, HIGH); (NOT INSPECT, LOW) will remain exactly the same as in Part One, as shown below.

Employer's point earnings			Worker's point earnings		
	HIGH	LOW		HIGH	LOW
INSPECT	52	12	INSPECT	25	20
NOT INSPECT	60	0	NOT INSPECT	25	40

]

[FINE: The only difference between Part One and Two will be that the worker will pay a fine of 20 points to the employer when the worker was inspected and chose low effort. So after INSPECT and LOW the employer's point earnings increase by 20 points and the worker's point earnings decrease by 20 points, as shown in the tables below:

Employer's point earnings			Worker's point earnings		
	HIGH	LOW		HIGH	LOW
INSPECT	52	32	INSPECT	25	0
NOT INSPECT	60	0	NOT INSPECT	25	40

Thus, if the employer chooses INSPECT and the worker chooses LOW the employer earns 32 points and the worker earns 0 points. In all other cases the payoffs remain the same as in Part One.]

[BONUS: The only difference between Part One and Two will be that the employer will give a reward of 20 points to the worker when he or she inspected the worker and found out that the worker chose high effort. So after INSPECT and HIGH the employer's point earnings decrease by 20 points and the worker's point earnings increase by 20 points, as shown in the new earnings tables below:

Employer's point earnings		
	HIGH	LOW
INSPECT	32	12
NOT INSPECT	60	0

Worker's point earnings		
	HIGH	LOW
INSPECT	45	20
NOT INSPECT	25	40

Thus, if the employer chooses INSPECT and the worker chooses HIGH the employer earns 32 points and the worker earns 45 points. In all other cases the payoffs remain the same as in Part One.]

As before, your screen will display your accumulated point earnings (including your earnings from Part One). You will also see a table summarizing the decisions made by all participants in previous rounds. At the start of period 41, this table will be empty. The table will again list the results of the most recent 20 rounds after round 41.

Ending the session

At the end of round 120 your total points from all rounds will be converted to cash at a rate of 0.4 pence per point and you will be paid this amount in private and in cash. Now please begin making your Part Two decisions.