

ONLINE APPENDICES

Appendix A

Baseline treatment

Instructions

Introduction

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Structure of the experiment

At the beginning of the first round you will be randomly paired with another participant, and you will be paired with this same person in every round throughout the experiment. One of you will be randomly assigned the role of “Employer” and the other will be assigned the role of “Worker”. At the beginning of the first round you will be informed of your role, and you will keep this role in every round throughout the experiment.

The experiment will consist of at least 70 rounds. After round 70 the computer will randomly determine whether the experiment ends or continues. There will be a 20% chance that the experiment ends, and a 80% chance the experiment continues. If the experiment continues, then at the end of round 71 the computer will again randomly determine whether the experiment ends or continues. Again, there will be a 20% chance that the experiment ends, and a 80% chance the experiment continues. This process will repeat until the experiment ends. Thus no participant will know in advance how many rounds the experiment will consist of, or which round will be the last.

Structure of a round

At the beginning of a round the Employer chooses either INSPECT or NOT INSPECT. At the same time the Worker chooses either HIGH or LOW effort. Point earnings depend on choices as described in the table below:

	HIGH	LOW
INSPECT	Employer earns 30 Worker earns 20	Employer earns 10 Worker earns 15
NOT INSPECT	Employer earns 45 Worker earns 20	Employer earns 5 Worker earns 35

For example, if the Employer chooses NOT INSPECT and the Worker chooses LOW the Employer earns 5 points and the Worker earns 35 points. As another example, if the Employer chooses INSPECT and the Worker chooses HIGH the Employer earns 30 points and the Worker earns 20 points.

The computer will then inform you of the choices made by you and the person you are paired with, and your point earnings for the round.

On your screen you will also see in which round you are, your role, your total point earnings so far, and a table summarizing the decisions and earnings made in previous rounds by you and the person you are paired with.

Ending the session

After the last round your total points from all rounds will be converted to cash at a rate of 0.7 pence per point and you will be paid this amount in private and in cash.

Quiz

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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. How many points will you earn in a round if you are an Employer, choose INSPECT, and the Worker you are matched with chooses LOW _____
5. How many points will you earn in a round if you are a Worker, choose LOW, and the Employer you are matched with chooses INSPECT _____
6. The experiment will last at least ____ rounds.
7. Suppose the experiment has reached round 83. How likely is it that the experiment will continue to round 84?
a) Impossible; b) 20% chance; c) 80% chance; d) 100% chance;

R_{Low Discretion} treatment

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If the Employer chooses NOT INSPECT, the round will end immediately and the computer will inform you of the choices made by you and the person you are paired with, and your point earnings for the round.

If the Employer chooses INSPECT, then the round will have a second stage. In stage two the Employer is informed of the choice of the Worker (HIGH or LOW). Then the Employer chooses between NO ACTION and REWARD. If the Employer chooses NO ACTION earnings for the round are unchanged. If the Employer chooses REWARD, he or she has to decide how many tokens, from zero to five inclusive, to assign to the Worker. Each token assigned reduces the Employer’s earnings by 1 point and increases the Worker’s earnings by 3 points. At the end of stage two

the computer will inform you of all the choices made by you and the person you are paired with, and your point earnings for the entire round.

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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. How many points will you earn in a round if you are an Employer, choose INSPECT, and the Worker you are matched with chooses LOW, and
 - A) In stage two you then choose NO ACTION? _____
 - B) In stage two you then choose to REWARD the Worker with zero tokens? _____
 - C) In stage two you then choose to REWARD the Worker with five tokens? _____
5. How many points will you earn in a round if you are a Worker, choose LOW, and the Employer you are matched with chooses INSPECT, and
 - A) In stage two the Employer then chooses NO ACTION? _____
 - B) In stage two the Employer then chooses to REWARD you with zero tokens? _____
 - C) In stage two the Employer then chooses to REWARD you with five tokens? _____
6. How many stages will each round consist of?
 - a) One; b) Two; c) Two if the Employer chooses INSPECT; d) Two if the Employer chooses NOT INSPECT;
7. The experiment will last at least _____ rounds.
8. Suppose the experiment has reached round 83. How likely is it that the experiment will continue to round 84?
 - a) Impossible; b) 20% chance; c) 80% chance; d) 100% chance;

P_{Low Discretion} treatment

Instructions

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R^{High Discretion} treatment

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Quiz

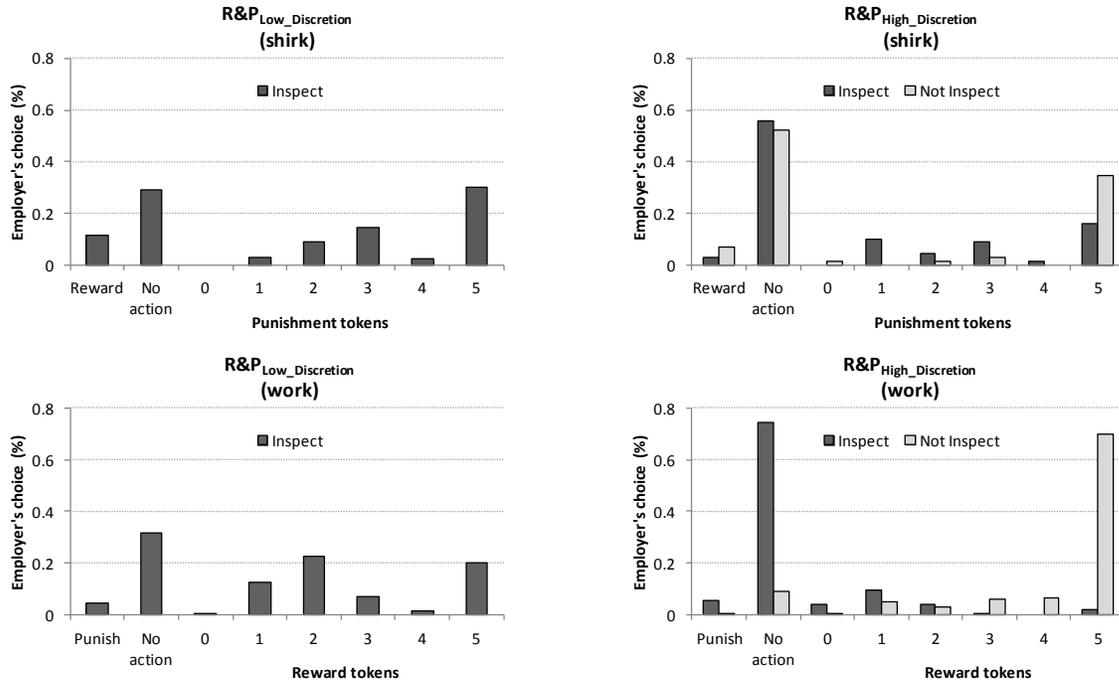
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Appendix B

Figure A.1: Use of punishments for shirk and rewards for work in the R&P treatments



Notes: based on 831 games in R&P_{Low_Discretion} and 1260 games in R&P_{High_Discretion}.

Table A.1: Use of punishments and rewards in the R&P treatments

	R&P _{Low_Discretion} (Punishments)	R&P _{High_Discretion} (Punishments)	R&P _{Low_Discretion} (Rewards)	R&P _{High_Discretion} (Rewards)
1 if Shirk	1.389*** (0.275)	1.393** (0.530)	-.654*** (0.185)	-1.412** (0.536)
1 if Inspect	-	.285 (0.191)	-	-1.857*** (0.584)
Round	.001 (0.002)	.004 (0.003)	-.003 (0.002)	.007 (0.004)
Constant	.048 (0.048)	-.133 (0.165)	1.236*** (0.090)	3.149*** (0.239)
N. of observations	1260	1260	1260	1260
N. of groups	18	18	18	18
R ²	.175	.258	.096	.485

Notes: Fixed-effects OLS regressions with robust standard errors. Dependent variable is number of punishment/rewards tokens assigned. In the “punishment” regressions, the dependent variable takes value 0 when the employer chooses “No Action” or “Reward”. In the “reward” regressions, the dependent variable takes value 0 when the employer chooses “No Action” or “Punish”. Robust standard errors reported in parentheses. *** p < 0.01; ** p < 0.05; * p < 0.10.

Table A.2: Probability of shirking in round t after punishments/rewards in round $t-1$ in the R&P treatments

Instrument	Treatment	Employer/Employee actions in round $t-1$	Punishment/Reward in round $t-1$			
			No Action or 0 tokens	1 or 2 tokens	3 or 4 tokens	5 tokens
Punishments	R&P _{Low_Discretion}	Inspect, Shirk	57% (n = 69)	54% (n = 28)	55% (n = 40)	54% (n = 71)
		Inspect, Shirk	51% (n = 37)	30% (n = 10)	71% (n = 7)	64% (n = 11)
	R&P _{High_Discretion}	Not Inspect, Shirk	27% (n = 37)	100% (n = 1)	0% (n = 2)	38% (n = 24)
		Inspect, Work	30% (n = 188)	14% (n = 202)	29% (n = 49)	8% (n = 117)
Rewards	R&R _{Low_Discretion}	Inspect, Work	19% (n = 139)	38% (n = 24)	0% (n = 1)	0% (n = 4)
	R&R _{High_Discretion}	Inspect, Work	22% (n = 88)	11% (n = 75)	6% (n = 118)	2% (n = 649)
		Not Inspect, Work				

Notes: Proportion of employees who shirked in round t in response to a given punishment/reward assignment in round $t-1$. Number of games reported in parentheses.

Table A.3: Effectiveness of punishments and rewards in the R&P treatments

	R&P _{Low_Discretion} (Punishments)	R&P _{High_Discretion} (Punishments)	R&P _{Low_Discretion} (Rewards)	R&P _{High_Discretion} (Rewards)
“Insp, Shirk” in $t-1$	.087 (0.071)	.233* (0.113)	.132* (0.070)	.175 (0.111)
“Insp, Work” in $t-1$	-.098* (0.052)	.049 (0.077)	-.088 (0.070)	-.087 (0.092)
“Not Insp, Shirk” in $t-1$	-.179 (0.107)	.047 (0.085)	-.177 (0.106)	-.018 (0.122)
Tokens × “Insp, Shirk” in $t-1$	.016 (0.018)	.030 (0.056)	-.027 (0.017)	-.628*** (0.065)
Tokens × “Insp, Work” in $t-1$	.038 (0.031)	-.028 (0.023)	-.003 (0.020)	.012 (0.034)
Tokens × “Not Insp, Shirk” in $t-1$	-	.029 (0.023)	-	-.057*** (0.017)
Tokens × “Not Insp, Work” in $t-1$	-	(no obs.)	-	-.045** (0.018)
Round	-.001* (0.001)	-.001 (0.001)	-.001* (0.001)	-.001 (0.000)
Constant	.402*** (0.055)	.113*** (0.024)	.403*** (0.056)	.266*** (0.075)
N. of observations	1242	1242	1242	1242
N. of groups	18	18	18	18-
R ²	.054	.140	.055	.172

Notes: Fixed-effects OLS regressions with robust standard errors. Dependent variable assumes value 1 if the employee shirks in round t , and 0 otherwise. In the “punishment” regressions, the Tokens variable takes value 0 when the employer chooses “No Action” or “Reward”. In the “reward” regressions, the Tokens variable takes value 0 when the employer chooses “No Action” or “Punish”. Robust standard errors reported in parentheses. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$.