

## Summary of the instructions<sup>1</sup>

Besides the on-line instructions subjects received a summary of these instructions on paper. Below a direct translation of this summary sheet is given. This summary belongs to the unobservable investment case (with the upward order of investment costs). The summary sheet for the observable investment condition is similar.

In the experiment participant A (B) corresponds with the buyer (seller). A's choice between X and Y corresponds with choosing between no-investment ( $I = 0$ ) and investment ( $I = 1$ ).

**Summary of the instructions** This experiment consists of 36 rounds. At the start of each round the participants are paired in couples. The pairing scheme was already determined before the start of the experiment.

The division into couples is chosen such that it is impossible that you are paired with the same other participant in two consecutive rounds. It also holds that within each of the six consecutive blocks of six rounds –viz. rounds 1 up to 6, rounds 7 up to 12, rounds 13 up to 18, rounds 19 up to 24, rounds 25 up to 30 and rounds 31 up to 36– you will never be paired with the same other participant in more than one round. When you will meet the same participant again is unpredictable. With whom you are paired within a particular round is always kept secret from you.

One of the participants within a pair has role A, the other has role B. Within a round you will keep the same role. What exactly your role is, you will hear at the beginning of each round. Over the rounds your role varies. This variation is chosen such that you will be assigned the role of A in exactly half of the total number of rounds, and the role of B in the other half. It also holds that within each block of six rounds, you are assigned the role of A three times and the role of B also three times.

Each of the 36 rounds consists of 2 stages. In stage 1 only the participant with role A takes a decision. In stage 2 the participant with role B does so. The two stages take the following form:

- 1 Participant A within a pair chooses between X and Y. A choice for X is free, a choice for Y is costly to (only) participant A. The costs of choosing Y depend on the block to which the round belongs:

rounds 1 up to 6 and 19 up to 24:	20 points
rounds 7 up to 12 and 25 up to 30:	40 points
rounds 13 up to 18 and 31 up to 36:	60 points

Participant B observes A's choice in stage 1 only **after** stage 2 has ended.

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<sup>1</sup>This summary belongs to the experiments reported in: Sloof, R., Oosterbeek, H. and J. Sonnemans, "Does making specific investments unobservable boost investment incentives" (version September 2005).

2 Participant B chooses the number of points, an integer between 0 and 130, s/he wants to keep for him/herself. After B made his/her choice, it is checked whether the number of points demanded can be assigned. In case A chose option X in stage 1, there are 50 points available. When A chose option Y there are 130 points available. In case the number of points demanded by B exceeds the number of points available, the available points are lost and both participants obtain nothing. Otherwise, the available points are divided according to B's demand. Apart from that, when participant A had chosen option Y, the costs of this choice has to be subtracted from his/her amount to arrive at the number of points s/he earns in this round.

At the start of experiment you will get 75 points for free. Before the start of the experiment 6 payment rounds were selected from the overall 36 rounds. From each block of six rounds, one round was selected. For every participant the same six rounds were selected. Your total number of points equals the sum of your initial amount and the number of points you obtained in the six selected payment rounds.

At end of the experiment you will be paid in euros, based on the total number of points you earned. The conversion rate is such that 10 POINTS in the experiment correspond to 1 EURO in money.