

These are the instructions used in the experiments described in:

Andreoni, James, "Why Free Ride? Strategies and Learning in Public Goods Experiments," *Journal of Public Economics*, 37, 1988, 292-304.

Subjects' Instructions.

WELCOME.

This experiment is a study of group and individual investment behavior. The instructions are simple. If you follow them carefully and make good investment decisions you may earn a considerable amount of money.

The money you earn will be paid to you, in cash, at the end of the experiment. A research foundation has provided the funds for this study.

THE INVESTMENT OPPORTUNITIES

You have been assigned to a group of 5 people. Each of you will be given an investment account with a specific number of tokens in it. These tokens are then invested to turn them into cash. *All tokens must be invested to earn cash from them.*

You will be choosing how to divide your tokens between two investment opportunities:

1. The Individual Exchange

Every token you invest in the Individual Exchange will earn you a return of one cent.

Example. Suppose you invested 55 tokens in the Individual Exchange. Then you would earn \$0.55 from this exchange.

Example. Suppose you invested 148 tokens in the Individual Exchange. Then you would earn \$1.48 from this exchange.

Example. Suppose you invested 0 tokens in the Individual Exchange. Then you would earn nothing from this exchange.

2. The Group Exchange

The return you earn from the Group Exchange is a little more difficult to determine.

What you earn from the Group Exchange will depend on the *total number of tokens* that you and the other four members of your group invest in the Group Exchange. The more the *group* invests in the Group Exchange, the more *each member of the group* earns. The process is best explained by a number of examples:

Example. Suppose that you decided to invest no tokens in the Group Exchange, but that the four other members invested a total of 100 tokens. Then your earnings from the Group Exchange would be \$0.50. Everyone else in your group would also earn \$0.50.

Example. Suppose that you invested 40 tokens in the Group Exchange and that the other four members of your group invested a total of 80 tokens. This makes a total of 120 tokens. Your return from the Group Exchange would be \$0.60. The other four members of the group would also get a return of \$0.60.

Example. Suppose that you invested 60 tokens in the Group Exchange, but that the other four members of the group invest nothing. Then you, and everyone else in the group, would get a return from the Group Exchange of \$0.30.

As you can see, every token invested in the Group Exchange will earn one half of a cent for *every* member of the group, not just the person who invested it. *It does not matter who invests tokens in the Group Exchange. Everyone will get a return from every token invested—whether they invest in the Group Exchange or not.*

The Table on the following page can be used to help you calculate your earnings from the Group Exchange.

RETURNS FROM THE GROUP EXCHANGE

TOTAL INVESTMENT BY YOUR <u>GROUP</u>	RETURN TO EACH MEMBER OF <u>YOUR GROUP</u>
0	0
10	5
20	10
30	15
40	20
50	25
60	30
80	45
100	50
120	60
140	70
160	80
180	90
200	100
220	110
250	120
280	140
310	155

THE INVESTMENT DECISION

Your task is to decide how many of your tokens to invest in the Individual Exchange and how many to invest in the Group Exchange. You are free to put some tokens into the Individual Exchange and some into the Group Exchange. Alternatively, you can put all of them into the Group Exchange or all of them into the Individual Exchange.

STAGES OF INVESTMENT

There will be 10 decision rounds in which you will be asked to make investment decisions. At the end of each round your earnings will be recorded by the experimenter. After the last round you will be paid your total earnings from all 10 rounds.

At the beginning of each round you will be given a fresh investment account. You will also be given an INVESTMENT DECISION FORM. You are to record your decision using this form. Be sure that your investment in the Individual Exchange plus your investment in the Group Exchange equals the number of tokens in your account. You must make your investment decisions *without* knowing what the others in your group are deciding.

Do not discuss your decision with any other participant!

The experimenter will collect the form when you have filled it out. The experimenter will then calculate your earnings from the Individual and Group Exchanges and convey them to you on an EARNINGS REPORT.

IMPORTANT NOTICE: The Earnings Report only tells you the total investment in the Group Exchange and your personal earnings. It does not tell you the investment decisions or earnings of the other members of your group. YOUR INVESTMENT DECISIONS AND EARNINGS ARE CONFIDENTIAL.

YOUR INVESTMENT ACCOUNT

The number of tokens in your Investment Account is indicated on your Investment Decision Form. **THE NUMBER OF TOKENS IN YOUR ACCOUNT IS CONFIDENTIAL.**

You will have the same number of tokens in your investment account in every decision round. The total number of tokens in each group in every decision round is 250.

YOUR GROUP

(Partners were given the following paragraph:) You have been preassigned to a group of 5 participants. The composition of participants in your group will **never** change. During all 10 decision rounds you will be a member of the **same group** of 5 participants.

(Strangers were given the following paragraph:) The composition of your group will be changing every decision round. After each decision round you will be **reassigned** to a **new group** of 5 participants. None of the 5 group members will ever have been members of the same group in the past. The chance that any other participant will ever be in a group with you more than one time is very small.

At no point in the experiment will the identities of the other members of the group be made known to you, nor will your identity be made known to them.

GOOD LUCK!

You may begin by completing the first Investment Decision Form.