

## APPENDIX B. INSTRUCTIONS USED IN THE EXPERIMENT

Below is the text of the instructions read to subjects participating in the experiment. Text in brackets was read only to subjects participating in S sessions; text in parentheses was read only to subjects participating in C sessions. Text not in parentheses or brackets was read to all subjects.

This is an experiment in the economics of decision-making. If you have a question at any time, please feel free to ask the experimenter.

You will each be playing the role of a high school student. The experiment is made up of several rounds. In each round, you will have a certain skill level, you will decide whether or not to earn a good grade, and you will receive a test score. Based on your grade and your test score, you will earn a salary.

The sequence of play in a round is as follows: First, players are assigned their skill levels. Then, players choose what grade to earn. Then, players find out their test score and salary, as well as the decisions of the entire group. After this, the next round begins. Skill levels and test scores will be chosen again.

At the beginning of each round, you will be randomly assigned a skill level – either High, H, Medium, M, or Low, L. The skill levels are different in [two] (three) ways. First, the skill levels vary in how likely they are to get a good test score. High types always get good scores, Medium types sometimes get good scores, and Low types never get good scores. (Second, they vary in the bonus or penalty you get for earning a good grade. Low types have a large penalty, Medium types have a small penalty, and High types have a bonus. Thirdly,) [Secondly,] firms value different skill levels differently. High types are the most valuable to firms and Low types the least. You will not be told the skill levels of any of the other players, but in each round, there will always be 4 High types, 8 Medium types, and 4 Low types.

After finding out your skill level, you will choose whether to earn a good grade, G or a bad grade, B. The bonus or penalty for each type for earning a good grade is shown on the board here. There is no bonus or penalty for earning a bad grade.

After everyone chooses what grades to earn, each player receives his or her test score – either Pass, P, or Fail, F. Your test score does not depend on your grade(, but it does depend on your skill level. High types always pass, Low

types always fail, and Medium types pass 50% of the time and fail 50% of the time.)]. Each type passes 50% of the time and fails 50% of the time.] After test scores have been released, the outcomes for the entire group will be posted. There will be no information on individuals, but you will see how many players of each skill level there were in each of the 4 combinations of grades and test scores.

Then, each player will be hired by a firm. The firm that hires you does not know your skill level, but it does have access to the posted information and does know your grade and test score. Your salary for the round will be the average of the productivities of all players with the same grade and test score as you, including yourself. The productivities of the respective skill levels is shown on the board here. Your gross payoff for the round is your salary. Your net payoff for the round is your salary, plus or minus your bonus or penalty for earning a good grade (if any).

You have each been given a record sheet with spaces to write your decision and outcome for each round. At the beginning of each round, you will be given a piece of paper with one end folded and sealed. Please do not break the seal until you are asked to do so. On the outside of the paper is your skill level for the round and a space to write your grade. When you receive your paper, write your player number on the piece of paper and write your skill level in the record sheet. Then, choose what grade you will earn this round and write this in your record sheet and on the paper. Also, write down your bonus or penalty, if you earned a good grade, or 0, if you earned a bad grade, for the round. After everyone's grades are written down, players should break the seals on their papers to find out their test scores. At this time, write your test score in your record sheet. Then, the papers will be collected and results will be posted. When you find out your salary, write this down under "gross payoff" in your record sheet. Then, calculate your net payoff. After this, we will go on to the next round.

You will each receive a 5 dollar payment for completing this session. In addition, one round will be randomly chosen, and you will each receive your net payoff for that round, in addition to the 5 dollars. The exchange rate is 100 points = 1 dollar. Since every round has a chance of being chosen, you should choose your actions carefully in each round.

Are there any questions?

We will now play a practice round. This round will not be the round chosen to determine your payment, so do not

worry about which action you choose in this round. We are playing this practice round to make everyone familiar with the way the experiment will be run.