APPENDIX A: EXCHANGE GAME SOLUTIONS

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No Institutions (NoES). The solution to the market game in absence of institutional contract enforcement is discussed in the paper (section 3.2). Given the payoffs displayed in Matrix 1, cheat is a weakly dominant strategy in this game. By elimination of weakly dominated strategies, we obtain one Nash equilibrium (Cheat, Cheat) which gives a payoff of 10 to each one of the two trading partner. There is another equilibrium in pure strategy: (Out, Out), but it is payoff dominated for both players by the (Cheat, Cheat) Nash equilibrium.

Partial Enforcement System (PES). In the partial enforcement treatments agents have to choose a strategy comprised of whether to get protection {P, NP} and whether to cheat, trade honestly or stay out, denoted respectively by {C, H, O}. The payoffs to this game can be represented in normal form as follows:

	P C	P H	P O	NP C	NP H	NP O
P C	12,12	12,15	-4,-4	25,-3	25,0	-4,1
P H	15,12	15,15	-4,-4	15,-3	15,20	-4,1
P O	-4,-4	-4,-4	-4,-4	-4,1	-4,1	-4,1
NP C	-3,25	-3,15	1,-4	10,10	30,0	1,1
NP H	0,25	20,15	1,-4	0,30	20,20	1,1
NP O	1,-4	1,-4	1,-4	1,1	1,1	1,1

(P, O) is the only strictly dominated strategy for this game. The only equilibrium in pure strategy in this game is {(NP,O);(NP,O)}. Indeed, if player 2 plays O, player 1 can do no better than not to buy protection and play O (or anything else). While there is no other equilibrium in pure strategies, this game has several equilibria in mixed strategies (see discussion in section 3.2).

Impartial Enforcement System (IES). Under the impartial enforcement treatment agents have to choose a strategy comprised of whether to take a cheating partner to court {C, NC} and whether to cheat, trade honestly or stay out, denoted respectively by {C, H, O}. The payoffs to this game can be represented in normal form as follows:

	C C	C H	C O	NC C	NC H	NC O
C C	13,13	15,18	1,1	13,13	30,0	1,1
C H	18,15	**20,20**	1,1	18,15	20,20	1,1
C O	1,1	1,1	1,1	1,1	1,1	1,1
NC C	13,13	15,18	1,1	10,10	30,0	1,1
NC H	0,30	20,20	1,1	0,30	20,20	1,1
NC O	1,1	1,1	1,1	1,1	1,1	1,1

{C H, C H} is obtained as a Nash-equilibrium in pure strategies by iterated deletion of weakly dominated strategies. It is not unique, though, as equilibria in which both players play O (regardless of whether they play C or not) are also Nash equilibria of this game, but it is payoff-dominant.

APPENDIX B: ADDITIONAL TABLES AND FIGURES

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Table B1: Summary Statistics by Country

	Italy North			Italy South			Kosovo		
Variable	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.
Gender (1 if male)	99	0.53	0.50	70	0.63	0.49	177	0.75	0.43
Age	99	45.40	13.37	67	43.45	13.15	176	28.15	11.67
Number of children	97	1.29	2.48	68	1.38	1.65	177	0.71	1.53
Household size	98	2.79	1.35	67	3.31	1.20	174	5.86	2.25
Married	99	0.62	0.49	70	0.63	0.49	173	0.28	0.45
Separated	99	0.06	0.24	70	0.06	0.23	173	0.02	0.13
Widow	99	0.00	0.00	70	0.01	0.12	173	0.02	0.13
Single	99	0.32	0.47	70	0.30	0.46	173	0.68	0.47
Employee (or self-employed)	99	0.77	0.42	69	0.67	0.47	176	0.29	0.45
Student	99	0.04	0.20	69	0.04	0.21	176	0.35	0.48
Unemployed	99	0.00	0.00	69	0.19	0.39	176	0.27	0.44
Inactive or other	99	0.19	0.40	69	0.10	0.30	176	0.09	0.29
Primary or secondary edu.	99	0.14	0.35	68	0.09	0.29	177	0.03	0.18
High school	99	0.49	0.50	68	0.44	0.50	177	0.54	0.50
Post high school	99	0.09	0.29	68	0.06	0.24	177	0.37	0.48
Graduate edu.	99	0.27	0.45	68	0.41	0.50	177	0.06	0.24
Household income (Euro)	96	2.29	1.44	67	2.02	1.93	170	103.32	108.34
Socio-economic in. (1 poorest-10 richest)	99	4.79	1.45	69	4.46	2.06	173	4.57	1.97
Business owner	99	0.19	0.40	70	0.36	0.48	175	0.05	0.22
Risky lottery choice	99	0.38	0.49	70	0.41	0.50	176	0.29	0.45

Table B2: Individual characteristics correlated with initial trust

OLS Estimation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Amounts Sent				**% Returned**		
Sample	Pooled	Italy North	Italy South	Kosovo	Pooled	Italy North	Italy South	Kosovo
Gender (1 if female)	-0.53	-1.07*	-1.08	0.01	-6.60	-10.03	-3.98	-6.07
	[0.29]	[0.53]	[0.83]	[0.46]	[4.28]	[7.21]	[11.48]	[8.32]
Age	-0.00	0.00	-0.04	0.00	-0.12	0.02	-0.09	-0.45
	[0.02]	[0.03]	[0.04]	[0.03]	[0.22]	[0.36]	[0.54]	[0.43]
Household size	0.01	0.00	-0.37	0.00	0.05	-0.54	0.17	0.00
	[0.07]	[0.20]	[0.31]	[0.09]	[1.48]	[2.78]	[4.67]	[1.54]
Married	0.05	2.03*	0.03	-2.34*	-6.57	-4.46	-16.03	-15.42
	[0.68]	[0.87]	[0.94]	[1.12]	[7.55]	[10.45]	[15.82]	[20.51]
Separated	0.00		-1.17	-0.25	0.52		-0.19	0.85
	[0.88]		[1.22]	[0.75]	[14.22]		[15.39]	[17.63]
Widow	-0.09	-0.48	-1.39	0.04	0.15	-8.54	0.49	0.23
	[0.41]	[0.81]	[0.73]	[0.55]	[6.65]	[9.01]	[12.90]	[9.84]
Student	0.01	0.12	0.02	-0.11	0.21	0.56	1.00	0.12
	[0.52]	[1.52]	[1.00]	[0.55]	[7.73]	[9.93]	[30.48]	[8.98]
Unemployed	-0.10		-0.58	0.00	-2.33		-18.89	0.08
	[0.45]		[1.20]	[0.53]	[7.71]		[19.46]	[9.76]
Inactive or other	0.02	-0.57	0.03	0.06	-5.22	-13.58	-9.53	-3.35
	[0.50]	[0.60]	[1.00]	[0.83]	[6.30]	[9.16]	[13.88]	[12.95]
High school	-0.81*	-0.40	-2.24	-1.71*	-1.13	-2.36	0.52	-13.32
	[0.37]	[0.59]	[1.52]	[0.73]	[10.81]	[11.62]	[38.95]	[18.88]
Post high school	-0.89	-0.45	-3.22	-1.77*	-2.47	-6.28	-23.65	-11.11
	[0.54]	[0.96]	[1.82]	[0.74]	[11.16]	[13.87]	[39.91]	[19.01]
Graduate edu.	-0.20	0.05	-1.03	-1.72	0.15	0.18	24.62	-10.92
	[0.52]	[0.80]	[1.62]	[1.01]	[11.71]	[12.93]	[39.89]	[21.57]
Individual monthly income (Euro)	-0.00	-0.09	0.01	-0.00	-0.01	-0.54	-0.72	-0.01
	[0.00]	[0.10]	[0.13]	[0.00]	[0.01]	[1.51]	[2.37]	[0.01]
Subjective economic status	0.01	0.01	0.00	0.00	-0.01	-1.56	-1.94	0.00
	[0.09]	[0.21]	[0.16]	[0.12]	[1.44]	[2.34]	[3.62]	[1.99]
Business owner	-0.29	-0.44	0.04	-1.85**	-8.93	-9.47	0.40	-20.34
	[0.39]	[0.76]	[0.81]	[0.54]	[5.06]	[10.96]	[14.89]	[11.17]
Observations	316	96	60	160	316	96	60	160
R-squared	0.00	0.01	0.02	0.01	0.00	0.01	0.01	0.01

Robust standard errors reported in brackets. All regressions with a constant. *** p<0.01, ** p<0.05, * p<0.1.

Table B3: Trust and Trustworthiness Results, First Differences Estimation (Country Sub-Samples)

	(1)	(2)	(3)	(4)	(5)	(6)
	Amount sent			**% Returned**		
Sample	Italy North	Italy South	Kosovo	Italy North	Italy South	Kosovo
Mean Dep. Var.	0.24	0.34	0.44	-7.39	5.43	-0.19
IES	0.02	0.42	0.54*	6.73**	2.89	6.27**
	[0.54]	[0.63]	[0.31]	[3.38]	[9.26]	[2.90]
Observations	99	70	177	99	70	177
R-squared	0.00	0.01	0.02	0.04	0.00	0.03

Robust standard errors in brackets All regressions with a constant. *** p<0.01, ** p<0.05, * p<0.1

Figure B1: Evolution of Cheating over trading days

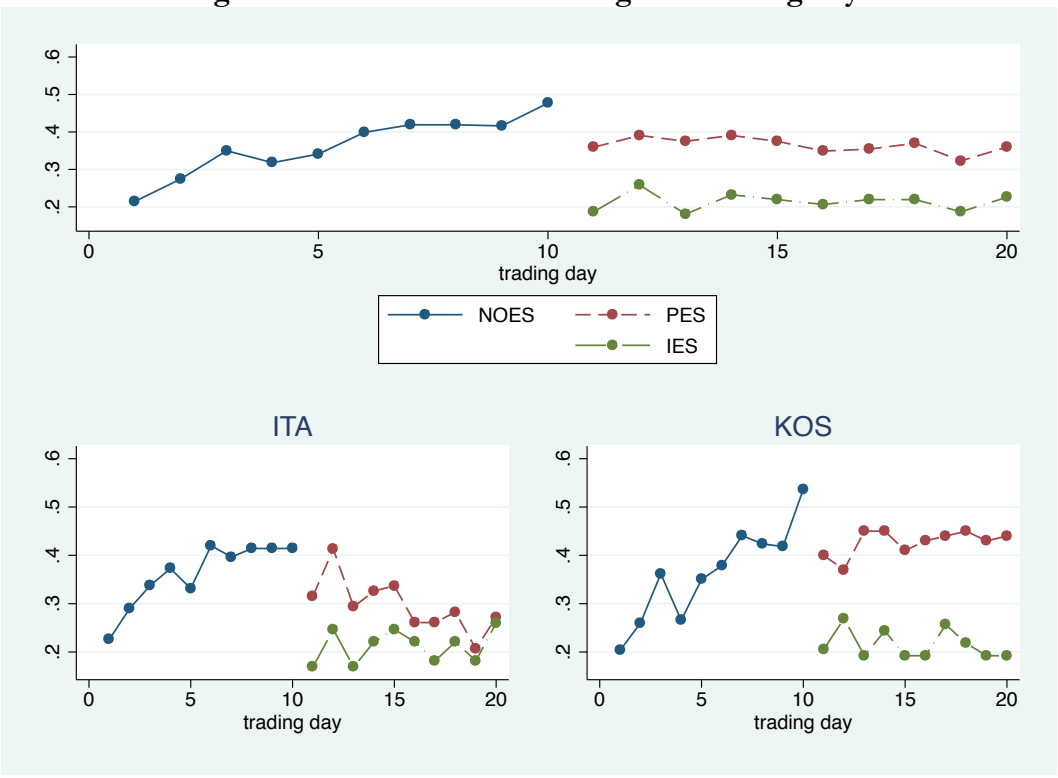


Figure B2: Evolution of participation over trading days

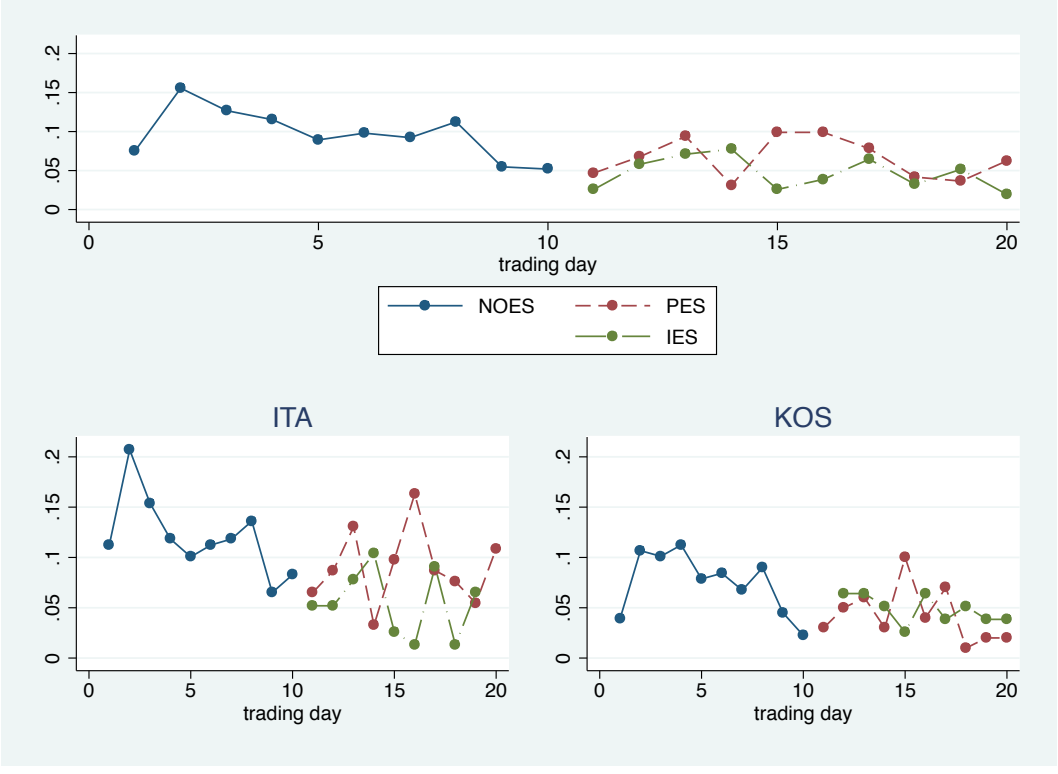
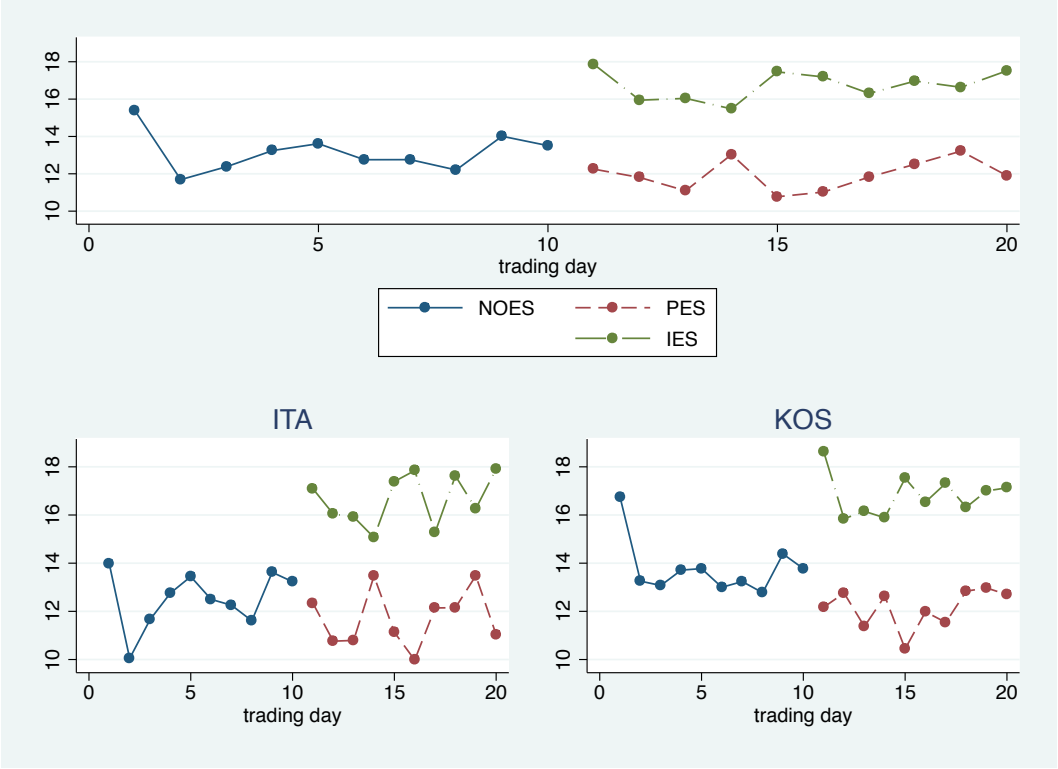


Figure B3: Evolution of traders' profits over trading days



APPENDIX C: EXPERIMENTAL INSTRUCTIONS

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Welcome!

Hi! Thank you for being here today to participate in this study about the economics of decision making. My name is …, and today with us are also …., who will help me conduct the activities. This study will be conducted in different places with different people. Since it is important that all participants to the study receive the same information, I will read from these instructions for the whole duration of the activities. Funds to conduct this study have been provided by the University of Delaware and the University of San Francisco.

Your participation in this study is voluntary. You have read and signed the consent form, so you know your rights and the potential risks from participating to this study. However, we think you will find this study interesting. In addition to a show-up fee of 10 Euros, you could earn a considerable amount of money, which will be paid to you in cash at the end of the experiment. The amount of money that you will go home with today depends partly on your choices in the activities that follow and partly on luck, so please do follow these instructions carefully.

This study may take up to 2 hours, so if you think you will not be able to stay that long without leaving please let us know now. If at any time you find that this is something in which you do not wish to participate for any reason, you are of course free to leave whether we have started the task or not.

This study will consist of several activities and a final survey. We will assign a number 1 to 4 for each activity. The numbering of the activity is for experimental purposes only. For each activity you will be asked to make some decisions. Each activity will involve a different number of decisions, divided in the following way:

Activity 1: 2 decisions
Activity 2: 10 decisions
Activity 3: 10 decisions
Activity 4: 2 decisions

At the end, we will randomly select one of these decisions to be the one that is actually paid. We will draw a number, 1-24 representing one of these decisions. For example, if 1 is drawn, you will be paid for the first decision in Activity 1. If 16 is drawn you will be paid according to the results in the 16^{th} decision (Decision 4 in Activity 3).

Your decisions in the activities and your answers to the survey will be PRIVATE and ANONYMOUS. You have been given a number. This number is your ID. You will have to ensure that your ID number is on each of the decision sheets and on the survey. The only people who will know your ID number are the experimenter and the experiment assistants. Your name will not appear on any of the decision sheets or survey, and it will

not be possible to link your name to your ID. Please do not show your ID number to anyone.

You will be given instructions for the tasks today. We will read through the instructions together. The instructions are simple and you will benefit from following them carefully. Please do not talk during any of the tasks. Thank you for participating!

Please make sure your mobile phones are turned off and in your bag to avoid interruptions during the meeting!

ACTIVITY 1

This task is for randomly assigned pairs of individuals. Each pair is made up of Player 1 and Player 2. Remember, none of you will know whom you are matched with, not even at the very end of our study.

For this activity, each player begins with 10 Euros.

PLAYER 1:
Player 1 will decide, how many, if any, of his 10 Euros he wishes to send to Player 2. Player 1 can choose to give any amount between 0 and 10 to Player 2. The chosen amount will then be tripled by the experimenter before it is passed on to Player 2.

PLAYER 2:
Player 2 will decide, for each possible amount that he/she can receive, how much, if any, he/she wishes to send back to Player 1. Note that Player 2 will decide how much to send back BEFORE knowing how much, if any, the Player 1 he/she will be paired with has sent.

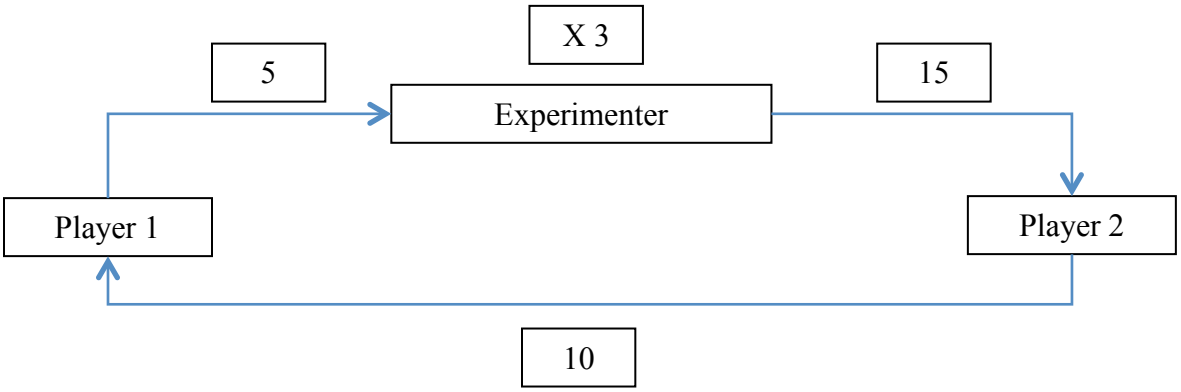
Each of you will play both roles, first the role of Player 1 and then the role of Player 2. We will randomly assign each Player 1 to a Player 2 (different from him/herself). For each pair, we will see how much Player 1 sends, what Player 2's decision is for that particular amount, and compute the payment. If at the end of the session, we draw decision 1 as the decision to be paid, each of you will be paid according to her decision as Player 1. If we draw decision 2 instead, each of you will be paid according to her decision as Player 2.

The payments for this activity are calculated in the following way: Player 1 earns the portion he/she kept from his/her original 10 Euros, plus whatever was returned by Player 2. Player 2 goes home with his/her original 10 Euros, plus whatever was given to him/her by Player 1 and tripled by the experimenter, minus whatever was given back to Player 1.

Here are some examples:

Initial Balance:
Player 1: 10
Player 2: 10

Step 1:
Player 1: 10-5 = 5
Player 2: 10+15=25



Ending Balance:
Player 1: 15
Player 2: 15

Step 2:
Player 1: 5+10=15
Player 2: 25-10=15

Please refer to the chart above for an example:

- The 1st Player gives 5 to the 2nd Player.
- This amount is tripled, so the 2nd Player gets 15 (3*5=15) *over and above* the initial 10 (which cannot be used to return money to the 1st Player). At this point, the 1st Player has 5 and the 2nd Player has 25 (10+15=25).
- Then the 2nd Player has to decide whether he wishes to send anything back to the 1st Player, and if so, how much.
- Imagine the 2nd Player decides to send 10 to the 1st Player. At the end, the 1st Player will go home with 15 (5+10=15) and the 2nd Player will go home with 15 (25-10=15).

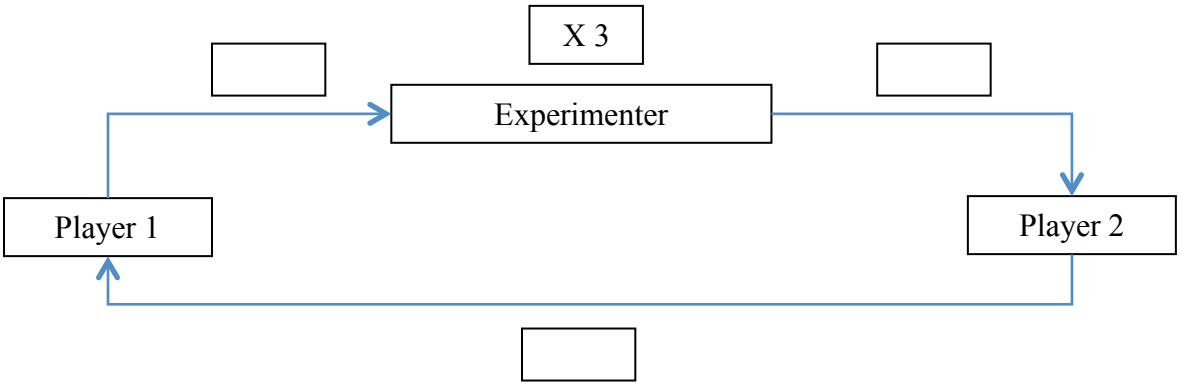
Another example:

- Imagine that the 1st Player gives all 10 to the 2nd Player.
- This amount gets tripled so the 2nd Player gets 30 (3*10=30) *over and above* the initial 10 (which cannot be used to return money to the first Player). At this point, the 1st Player has 0 and the 2nd Player has 40 (10+30=40).
- The 2nd Player has to decide whether they wish to send anything back to the 1st Player, and if so, how much.
- Suppose the 2nd Player decides to send 15 to the 1st Player. At the end, the 1st Player will go home with 15 (0+15=15) and the 2nd Player will go home with 25 (40-15=25).

Quiz:

Initial Balance:
Player 1: 10
Player 2: 10

Step 1:
Player 1:
Player 2:



Ending Balance:
Player 1:
Player 2:

Step 2:
Player 1:
Player 2:

Imagine that Player 1 gives 4 to Player 2.

1. At this point, Player 1 has ___ Euro.
2. The researcher triples the amount allocated by Player 1, so Player 2 receives ___ *over and above* the initial 10. At this point, Player 2 has ___ Euro.
3. Then Player 2 has to determine the amount to return to Player 1 from the ___.Suppose Player 2 decides to return 2 to Player 1. Player 1 goes home with ___ and Player 2 goes home with ___ Euro.
4. Suppose Player 2 decides to return 5 to Player 1. Player 1 goes home with ___ and Player 2 goes home with ___Euro.

Is everything clear? Are there any questions? If not, let's proceed with the actual activity.

PLAYER 1
We will now distribute the first decision sheet and we will go over it together.

Please write your ID number in the space at the top left of the decision sheet. The decision sheet tells you that you are Player 1 and looks like this:

ID…… **ACTIVITY 1**

You are Player 1.
Please select any amount between zero and 10 (in increments of 1, no cents) to send to Player 2:

_____

Remember that this amount will be tripled before reaching Player 2. Player 2 will then decide how much to send you back (Remember, Player 2 also started with 10, but she/he cannot send any of this back to you).

You must decide how much you want to send to Player 2 and write the amount in the space provided. When you have made your decision, place the sheet face down on the table and we will collect it.

PLAYER 2
We will now distribute the second decision sheet and we will go over it together.

Please write your ID number in the space at the top left of the decision sheet. The decision sheet tells you that you are a Player 2 and looks like this:

ID…… **ACTIVITY 1**

You are Player 2.

Please select the amount you would return to Player 1 for each of the scenarios below:

Scenario	Your Initial Endowment	If Player 1 Gives You	You Receive	You Give back to Player 1: (Please write down **one amount per row, it has to be between 0 and the amount you receive**)
1	10	0	0	
2	10	1	3	
3	10	2	6	
4	10	3	9	
5	10	4	12	
6	10	5	15	
7	10	6	18	
8	10	7	21	
9	10	8	24	
10	10	9	27	
11	10	10	30	

Since you will be matched randomly with a Player 1 (other than yourself), you will have to decide how much you want to send back for each possible amount that Player 1 can send. Since Player 1 can send from 0 to 10 Euros, there are 11 possible scenarios, represented by the rows of your decision sheet. Your endowment is always 10 Euros, as shown in the second column of the decision sheet. The third column shows the possible amounts that Player 1 can send. The fourth column shows the amount sent by Player 1 multiplied by 3, which is what you will receive. In the last column on the right you have to write your decision for each possible scenario.

Write how much you want to send back to Player 1 for each possible scenario in the space provided. When you have made all your decisions, place the sheet face down on the table and we will collect it.

Activity 2 and 3

In activity 2 and 3 we are going to create a market for a fictitious good. You will be traders in this market. For instance, you could be buyers or sellers of the good on this market. Remember that the information that you will receive (about your decision and your profits) is PRIVATE. To ensure the best results for yourself and complete data for the experimenters, please do not talk with other market participants while trading is in progress and do not discuss your information with others at any point during the experiment or afterwards.

Each time period for trading is called a TRADING DAY and will last for a maximum of 2 minutes. During a trading day you can decide whether or not to trade a unit of the fictitious good. For instance, you can see the decisions that you will take as those of a seller deciding whether to sell a unit of the good or not, or as those of a buyer deciding whether to buy a unit of the good or not. At the end of the trading day we will randomly match you with another trader (whom we will refer to as trading partner or counterpart), carry out the trade and calculate your profits for the Day. Then, a new Trading Day will begin. You will receive a new unit to trade for each new Day. Each trading day you will be paired with a different trading partner. There will be 10 Trading Days in activity 2 and 10 trading days in activity 3. The rules regulating trade on the market will be different in activity 2 and activity 3, so please pay special attention to that. We will explain and conduct activity 2 first, and then explain and conduct activity 3.

If at the end of the experiment we randomly draw a number between 3 and 22, then one of the trading days of activity 2 or 3 will get paid. In that case, your profits will be what you made on that randomly chosen trading day.

ACTIVITY 2 - NoES

Each trading day (for the next 10 trading days) you will have the chance to trade one unit of the good. You can choose among the following 3 actions:

1. Do not trade
2. Trade and not cheat
3. Trade and cheat

Your profit will depend on what your trading partner does. Your trading partner has the same 3 options: 1. doesn't trade; 2. trades and doesn't cheat; 3. trades and cheats. Your profits can then be summarized in the following table:

You/ Partner doesn't trade: **Your profit: 1** Partner's profit: 1	Partner cheats	Partner doesn't cheat
You cheat	**Your profit: 10** Partner's profit: 10	**Your profit: 30** Partner's profit: 0
You don't cheat	**Your profit: 0** Partner's profit: 30	**Your profit: 20** Partner's profit: 20

1. If you do not trade, your earning for the Day will be **1 token**.

2. If you trade and do not cheat, your profit will depend on whether your trading partner cheats or doesn't cheat:

- If the trading partner doesn't cheat, you earn **20 Euros** (and the trading partner too earns 20 Euros)
- If the trading partner cheats, you earn **0 Euros** (and the trading partner earns 30 Euros).

3. If you trade and cheat, again your profit will depend on whether your trading partner cheats or doesn't cheat:

- If the trading partner cheats, you earn **10 Euros** (and the trading partner too earns 10 Euros)
  If the trading partner doesn't cheat you earn **30 Euros** (and the trading partner earns 0 Euros).

One more note. In case you decide to trade but get matched with a partner that decided not to trade, your profit will be 1 Euro.

Is everything clear on how your profits are calculated? Are there any questions? If not, let's proceed with the actual activity.

We will now distribute your decision sheet and we will go over it together.

Please write your ID number in the space at the top left of the decision sheet. Your decision sheet has the following features..

For each of the trading days in this round, the first three columns show the three possible decisions that you can take: not trade, trade and not cheat, or trade and cheat. The last two columns on the right will be filled by us and will indicate the decision of the trading partner you are matched with and your profit for the Trading day.

If one of the trading days of this activity gets drawn for payment you will be paid according to your profits for that trading day.

You will have to mark with an X your desired choice for the current trading day. Please do not fill the decision sheet for the trading days still to come. Also, remember that you cannot change the choice you took in previous trading days.

Now please write your decision for the trading day number 1. When you are done, place the decision sheet face down and we will collect it.

ACTIVITY 3 - IES

The basic trading rules are the same as before, with the exception that now, if you want, you can take someone that cheats you to court. Taking someone to court will cost you **2 Euros** and it will cost the guilty party **5 Euros**. The cost of **2 Euros** will only be incurred if your trading partner cheats you and you want to take her/him to court. For simplicity, we will ask for you to decide whether you wish to take a cheating partner to court or not before the trade actually happens. We will only charge you the 2 Euros if you are cheated. We will compute your earnings for each trading day, depending on your decisions and those of the partner you are paired with. Each trading day you'll be paired with a different trading partner. There will be 10 Trading Days in this activity.

If none of you take each other to court, your profits will be calculated in exactly the same way as before. If you or the other player instead goes to court the profits will be calculated in the following way:

Each trading day (for the next 10 trading days) you will have the chance to trade one unit of the good. You can choose among several actions:

1. Do not trade
2. Trade and not cheat, and
    a. Opt TO take a cheating trading partner to court
    b. Opt to NOT take a cheating trading partner to court
3. Trade and cheat, and
    a. Opt TO take a cheating trading partner to court
    b. Opt to NOT take a cheating trading partner to court

Your profit will depend on what the trading partner does and whether you or the trading partner goes to court. The trading partner has the same options: 1. doesn't trade; 2. trades and doesn't cheat; 3. trades and cheats. If you cheat the trading partner will also have the option to take your to court or not. Your profits can then be summarized in the following table (note that if nobody takes her counterpart to court, the profits are computed as in Activity 2):

You/ Partner doesn't buy: **Your profit: 1** Partner's profit: 1	Partner cheats	Partner doesn't cheat
You cheat	No court **Your profit: 10** Partner's profit: 10 *Court* ***Your profit: 13*** *Partner's profit: 13*	No court **Your profit: 30** Partner's profit: 0 *Court* ***Your profit: 15*** *Partner's profit: 18*
You don't cheat	No court **Your profit: 0** Partner's profit: 30 *Court* ***Your profit: 18*** *Partner's profit: 15*	**Your profit: 20** Partner's profit: 20

1. If you do not trade, you will earn **1 token**.

2. If you trade and do not cheat, your profit will depend on whether your trading partner cheats or doesn't cheat, and whether you take the trading partner to court or not.

- If the trading partner doesn't cheat, you earn **20 Euros** (and the Seller too earns 20 Euros).
- If the trading partner cheats and you don't take him/her to court you earn **0 token** (and the trading partner earns 30 Euros)
- If the trading partner cheats and you take him/her to court you earn **18 Euros** (and the trading partner earns 15 Euros)

3. If you trade and cheat, again your profit will depend on whether your trading partner cheats or doesn't cheat, and whether the trading partner takes you to court or not.

- If the trading partner doesn't cheat and
  - doesn't take you to court, you earn **30 Euros** (and the trading partner earns 0 token);
  - takes you to court, you earn **15 Euros** (and the trading partner earns 18 Euros)
- If the trading partner cheats and
  - neither of you send each other to court, you earn **10 Euros** (and trading partner too earns 10 Euros)
  - both or one of you take each other to court, you earn **13 Euros** (and the trading partner too earns 13 Euros)

One more note. In case you decide to trade but get matched with a partner that decided not to trade, your profit will be 1 Euro.

Is everything clear? Are there any questions? If not, let's proceed with the actual activity. We will now distribute your decision sheet and we will go over it together.

Please write your ID number in the space at the top left of the decision sheet.

Your decision sheet has the following features.

It looks exactly as the decision sheet in the previous round, except for one thing: for each trading day, there is a row which asks you if you want to take the trading partner to court, in case the trading partner cheats. After marking your choice (court/no court), you have to decide whether you want to not trade, trade and not cheat, trade and cheat, as you did in the previous round. As in the previous activity, the columns on the right will be filled by us and will show the decisions (relative to going to court and trading) of the partner you'll be matched with and your profits for that trading day.

If one of the trading days of this activity gets drawn for payment, you will be paid according to your profits for that trading day.

You will have to mark with an X your desired choices for the current trading day. Please do not fill the decision sheet for the trading days still to come. Also, remember that you cannot change the choices you took in previous trading days.

Now please write your decision for the trading day number 1. When you are done, place the decision sheet face down and we will collect it.

ACTIVITY 3 - PES

The basic trading rules are the same as during the first 10 trading periods, with the exception that now, if you want, at the beginning of each trading day you can purchase "Personal Protection". Personal Protection will help you to make sure your trading partner doesn't cheat. If you desire to purchase Personal Protection, you need to pay 5 Euros at the beginning of each period and are incurred as a cost no matter what the partner does, whether she/he cheats, doesn't cheat or decides not to trade. The benefit of paying for personal Protection is that if a trading partner cheats you, the trading partner will be forced to carry out the contract, and pay 3 Euros as penalty. We will compute your earnings for each trading day, depending on your decisions and those of the partner you are paired with. There will be 10 Trading Days in this activity.

Your profit depends on whether you and your trading partner buy Personal Protection or not and on what you and your partner decide in terms of trading, cheating or not cheating. We have now 4 possible cases with respect to paying for Personal Protection:

1) Neither you nor the trading partner purchases Personal Protection
2) Both you and the trading partner purchase Personal Protection
3) Only you purchase Personal Protection
4) Only the trading partner purchases Personal Protection

1. Neither you nor the trading partner purchases Personal Protection

If none of you purchase Personal Protection, your profits will be calculated in exactly the same way as in the initial 10 periods:

You/ Partner doesn't trade: **Your profit: 1** Partner's profit: 1	Partner cheats	Partner doesn't cheat
You cheat	**Your profit: 10** Partner's profit: 10	**Your profit: 30** Partner's profit: 0
You don't cheat	Your profit: 0 Partner's profit: 30	Your profit: 20 Partner's profit: 20

2. Both you and the trading partner purchase Personal Protection

If both you and the trading partner purchase Personal Protection, the profits are calculated according to table below:

You and/or trading partner doesn't trade: **Your profit: -4** Partner's profit: -4	Partner cheats	Partner doesn't cheat
You cheat	**Your profit: 12** Partner's profit: 12	**Your profit: 12** Partner's profit: 15
You don't cheat	**Your profit: 15** Partner's profit: 12	**Your profit: 15** Partner's profit: 15

If you purchase Personal Protection and do not cheat, your profit will always be 15 Euros (20 – 5, with 5 being the payment for the Personal Protection). If you cheat, since the trading partner has Personal Protection too, the Personal Protector will take 3 Euros from you as cheating penalty, in addition to the 5 Euros you have to pay anyway because you purchased Personal Protection. So, in the case you cheat you earn 12 Euros. If either you or the trading partner matched with you decide not to trade with each other, your profit will be -4 Euros (1 token for not trading – 5 Euros for getting Personal Protection).

3. Only you purchase Personal Protection

If only you purchase Personal Protection, the profits are calculated according to the table below:

You and/or trading partner doesn't trade: **Your profit: -4** Partner's profit: 1	Partner cheats	Partner doesn't cheat
You cheat	**Your profit: 25** Partner's profit: -3	**Your profit: 25** Partner's profit: 0
You don't cheat	**Your profit: 15** Partner's profit: -3	**Your profit: 15** Partner's profit: 20

If you purchase Personal Protection and do not cheat, your profit will always be 15 Euros (20 – 5, with five being the payment to the Personal Protector). If you cheat, your profit will always be 25 Euros since either the trading partner doesn't cheat you (30 – 5, with five being the payment for the Personal Protector) or cheats you, but the Personal Protector makes sure he/she pays the full amount. If you decide not to trade, your profit will be -4 Euros, since you have already committed to buy protection. Your profit will be -4 Euros also in case you wanted to trade but the trading partner matched with you decided not to trade.

4. Only the trading partner purchases Personal Protection

If only the trading partner purchases Personal Protection, the profits are calculated in a similar way according to the table below:

You and/or trading partner doesn't trade: **Your profit: 1** Partner's profit: -4	Partner cheats	Partner doesn't cheat
You cheat	**Your profit: -3** Partner's profit: 25	**Your profit: -3** Partner's profit: 15
You don't cheat	**Your profit: 0** Partner's profit: 25	**Your profit: 20** Partner's profit: 15

If you don't purchase Personal Protection and do not cheat, your profit will be 20 Euros in case the trading partner doesn't cheat or 0 Euros if the trading partner cheats you. If you cheat, since the trading partner has Personal Protection, you will have to pay in full and, in addition, the Personal Protector will take all your profits and an extra 3 Euros from you as penalty. So, in this case you cheat you earn -3 Euros. If you or the trading partner decide not to trade, your profit will be 1 Euro since you did not buy protection.

Is everything clear? Are there any questions? If not, let's proceed with the actual activity. We will now distribute your decision sheet and we will go over it together.

Please write your ID number in the space at the top left of the decision sheet. The decision sheet has the following features.

It looks exactly as the decision sheet in the previous round, except for one thing: for each trading day, there is a row, which asks you if you want to buy personal protection for that day. . After marking your choice (protection/no protection), you have to decide whether you want to not trade, trade and not cheat, trade and cheat, as you did in the previous round. As in the previous activity, the columns on the right will be filled by us and will show the decisions (relative to purchasing protection and trading) of the partner you'll be matched with and your profits for that trading day.

If one of the trading days of this activity is drawn for payment, we will pay you according to your profits for that trading day.

You will have to mark with an X your desired choices for the current trading day. Please do not fill the decision sheet for the trading days still to come. Also, remember that you cannot change the choices you took in previous trading days.

Now please write your decision for the trading day number 1. When you are done, place the decision sheet face down and we will collect it.