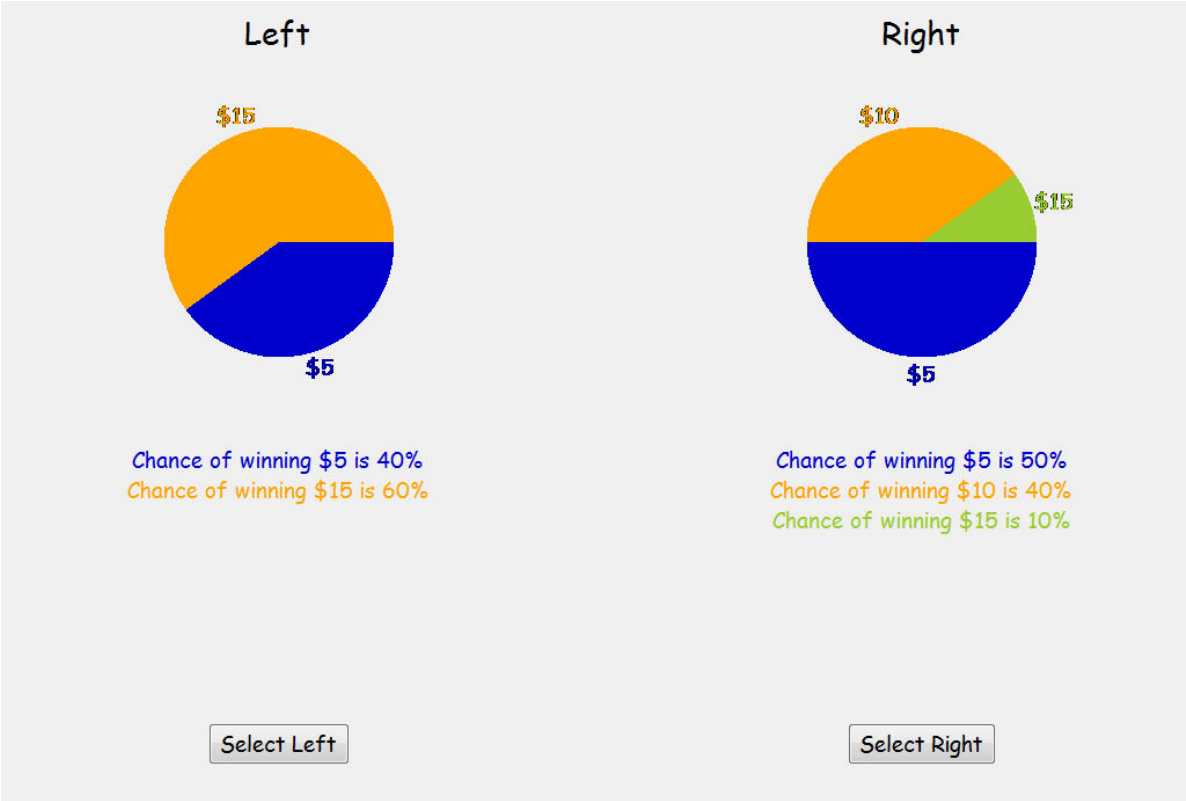
Choices Over Risky Prospects

This is a task where you will choose between prospects with varying prizes and chances of winning each prize. You will be presented with a series of pairs of prospects where you will choose one of them. For each pair of prospects, you should choose the prospect you prefer. You will actually get the chance to play **one** of these prospects, and you will be paid according to the outcome of that prospect, so you should think carefully about which prospect you prefer.

Here is an example of what the computer display of a pair of prospects will look like.



The outcome of the prospects will be determined by the draw of a random number between 1 and 100. Each number between, and including, 1 and 100 is equally likely to occur.

In this example the left prospect pays $5 if the random number drawn is between 1 and 40, and pays $15 if the number is between 41 and 100. The blue color in the pie chart corresponds to 40% of the area and illustrates the chances that the random number drawn will be between 1 and 40 and your prize will be $5. The orange area in the pie chart corresponds to 60% of the area and illustrates the chances that the random number drawn will be between 41 and 100 and your prize will be $15. When the lottery to be played out is selected, the computer will confirm what random numbers correspond to the different

prizes.

Now look at the pie chart on the right. It pays $5 if the random number drawn is between 1 and 50, $10 if the random number is between 51 and 90, and $15 if the random number is between 91 and 100. As with the prospect on the left, the pie slices represent the percentage of the possible numbers which yield each payoff.

Each pair of prospects is shown on a separate screen on the computer. On each screen, you should indicate which prospect you prefer by clicking on one of the buttons beneath the prospects.

After you have worked through all of the pairs of prospects, you will then select a **first random number** on the computer to determine which pair of prospects will be played out. Since there is a chance that any of your choices could be played out for real earnings, you should approach each pair of prospects as if it is the one that you will play out. Then you will then select a **second random number** to determine the outcome of the prospect you chose.

For instance, suppose you picked the prospect on the left in our example and it was the pair chosen to be played. If the second random number was 37, you would win $5; if it was 93, you would win $15. If you picked the prospect on the right and the second random number was 37, you would win $5; if it was 93, you would win $15.

In a moment we will show short videos showing you how the two random numbers are selected. The computer will display a series of random numbers quickly, and you will be asked to STOP the computer. The very next number the computer would have drawn is then the number that is used to select your choice for payment. For example, if you have made 30 choices in this task, the computer will randomly display numbers between 1 and 30 until you tell it to STOP. This will be the first random number. Here is how this works…

We also need to then pick a second random number, between 0 and 100, to determine how much money you receive from the prospect you selected. We will again have the computer display these numbers on a screen until you tell it to STOP. Here is how this works…

Therefore, your payoff is determined by three things:

- **which prospect you selected, the left or the right, for each of the choice pairs;**
- **which prospect pair is chosen to be played out in the series of choice pairs using the first random number; and**
- **the outcome of that prospect using the second random number.**

Which prospects you prefer is a matter of personal choice. The people next to you

may be presented with different prospects, and may have different preferences, so their responses should not matter to you or influence your decisions. Please work silently, and make your choices by thinking carefully about each prospect.

All payoffs are in cash, and are in addition to the show-up fee that you receive just for being here and participating, as well as any other earnings in other tasks from the session today.