

Appendix: Instructions Summary¹

Thank you for agreeing to participate in today's experiment. You have all seen a version of this experiment before. Before we begin, I would like to review the instructions for today's experiment.

It is very important to remember that although the experiment may be similar, some or all of the numbers may have changed. Do NOT assume that any of the information or results from a previous experiment will be useful in helping you to make your decisions today.

The purpose of the experiment is to give you an opportunity to earn as much money as possible. What you earn will depend on your decisions, as well as the decisions of others. As before you can produce as many units as you want regardless of the number of permits you own, but you could face a financial penalty if you do not own a permit for each unit you produce.

- During the period, you can earn money in two ways:
 1. Produce units of the fictitious good. For each unit you produce, you will earn a specified amount of money that will be added to your cash balance.
 2. Sell permits in the permit market. The selling price you receive for a permit will be added to your cash balance.
- Money will be subtracted from your cash balance if:
 1. You choose to buy additional permits. The purchase price you pay will be deducted from your cash balance.
 2. You are audited and if the total number of units you produce exceeds the number of permits you own.

Production Highlights

- Your Earnings from Production table tells you how many units you can produce and how much you will earn from each unit you produce. You might earn a different amount of money for each unit produced.
- Production of each unit takes a specified amount of time
- You can only produce one unit at a time.

¹ This instructions summary was given to students and read aloud by the experimenter before each session. During the trainers, subjects read a more detailed set of online instructions. The text of the detailed instructions is available from the authors upon request.

- The Production Timer tells you how much time is left for you to produce more units.
- In order to start production of a unit, there must be sufficient time on the Production Timer to complete production of the unit.
- To start production or to place an order for additional units, click the plus (+) button. If production is idle, then production will begin immediately.
- You can cancel units that have been ordered if production has not yet begun. To do so, click the minus (-) button.
- Earnings from the units produced are automatically added to your cash balance when production is completed.
- The last row of the “Earnings from Production” table tells you the maximum number of units you are able to produce.
- Under the “Earnings from Production” table, you can see the production status of each unit (produced, in production, or planned).

Permit Market Highlights

- You will be given an opportunity to buy and/or sell permits in the Permit Market.
- There are 4 ways in which you can participate in the market:
 1. Make an offer to buy a permit.
 - a. To do so, enter your price next to the My Buying Price and click Buy.
 - b. All buying prices must be GREATER than the Current Buying Price.
 2. Make an offer to sell a permit.
 - a. To do so, enter your price next to the My Selling Price and click Sell.
 - b. All selling prices must be LOWER than the Current Selling Price.
 3. Purchase a permit at the Current Selling Price.
 - a. To do so, enter the Current Selling Price next to My Buying Price
 - b. or click the Buy button next to the Current Selling Price.
 4. Sell a permit at the Current Buying Price.
 - a. To do so, enter the Current Buying Price next to My Selling Price
 - b. or click the Sell button next to the Current Buying Price.

- After each trade is completed, your permit balance will be automatically updated. Your cash balance will automatically be updated to reflect price you paid to buy the permit, or the price you received for selling the permit. This is shown in the My Balances section of your screen.

Auditing Highlights

- The computer monitor always knows how many permits you own and your cash balance. The computer does not know how many units you actually produced unless you are audited.
- There is an XX% chance that you will be audited, and (1-XX)% chance you will not be audited.
- If you are audited, the computer monitor will check to see how many units you actually produced. If the number of units you produced exceeds the number of permits you own, you will receive a financial penalty. The Permit Shortfall Table lists the penalties you will face.

To summarize, your total earnings for the period will be calculated as follows:

Your initial cash balance	
+ Earnings from production of the good	
+ Selling price for permits you sell in the permit market	
– Purchase price for permits you buy in the permit market	
– Penalties for a permit shortfall (only if you are audited and if you over produced)	
= Total earnings for the period	

At the end of the experiment, we will add up your total earnings for each period and you will be paid in cash for these earnings. Please raise your hand if you have any questions.