

Online supplementary materials for manuscript “Can Contracts Signal Social Norms? – Experimental Evidence” by A. Danilov and D. Sliwka

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APPENDIX C. ADDITIONAL ANALYSIS

1 BELIEFS ELICITATION – ADDITIONAL ANALYSIS

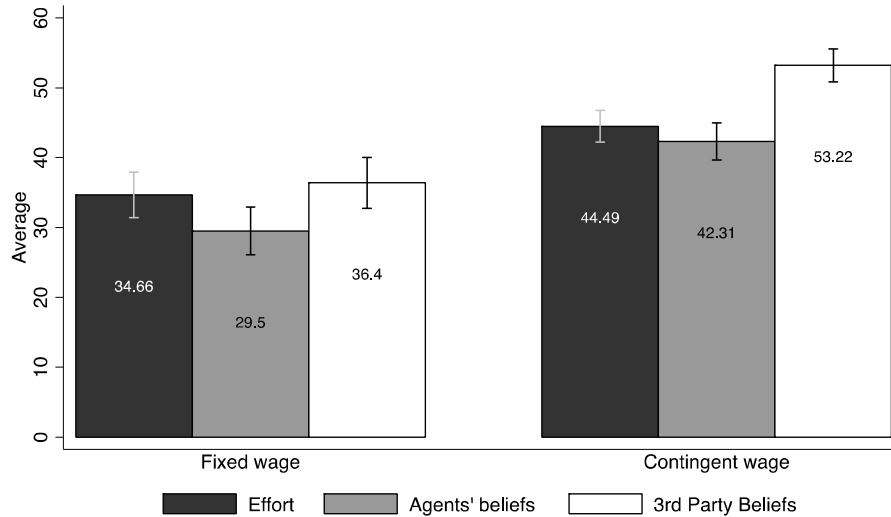


FIGURE C1 – BELIEFS OF AGENTS’ AND UNINVOLVED THIRD PARTY (COSTLESS BASELINE AND BASELINE BELIEFS EXPERIMENT)

2 THE RESTRICTION GAME

We also apply our experimental manipulation in the context of a different experiment, the “Cost of Control” experiment by Falk and Kosfeld (2006). Here the principal decides whether to impose a minimum on the agent’s contribution (i.e. to control the agent) or not (i.e. to trust him). As Falk and Kosfeld have shown, the choice of control can have “hidden costs” and leads to lower efforts.

In this experiment an agent (labeled *Participant A*) is matched to a principal (*Participant B*) and receives 120 points (in our setting equivalent to €12). The agent has to decide on a transfer X to be subtracted from his own account that is doubled and added to the principal’s account. Prior to the agent’s choice, the principal decides whether or not to impose a lower boundary of 10 on the agent’s choice set. Hence, the principal chooses $r \in \{0; 10\}$ and the agent $X \in [r; 120]$ with payoffs $(120 - X)$ for the agent and $(2X)$ for the principal. As in the previous experiments, we elicit agents’ decisions via the strategy method.

The Baseline treatment (with 158 subjects) was identical to the “C10” treatment by Falk and Kosfeld (2006) described above.¹ In the Norms treatment (with 156 subjects), we again used the method introduced in the main experiment: Before making a decision, principals are informed about exact contributions of 10 agents from a prior (Baseline) session, and agents know that principals receive this information without knowing the exact data.

A key difference between this setting and our main Contract choice experiment is that in the restriction game the choice of trust should already be beneficial in the Baseline setting, which is an exact replication of the experiment by Falk and Kosfeld (2006). However, we expect that the detrimental effect of control becomes more pronounced in the Norms setting and this should mainly be driven by smaller efforts when a restriction is imposed: Imposing the boundary may be a signal of a very selfish norm as it reveals that the principal apparently observed many agents who chose a very low effort of less than 10 without the restriction. Whereas not imposing the boundary is a weak signal of a “trustworthy” social norm, as potential performance gains from imposing such a low restriction are weak.

The results are shown in Figure 6 for efforts and beliefs.² Within both treatments we find a somewhat similar picture as obtained in Falk and Kosfeld (2006): The restriction does not increase and may even decrease efforts. But we observe statistically significant costs of control only in the Norms treatment ($p = 0.0670$, two-sided WSR test) and not in the Baseline treatment ($p = 0.2117$). The same holds for beliefs where control significantly reduces beliefs in the Norms treatment ($p = 0.0092$, two-sided WSR test) but not in the Baseline ($p = 0.2605$).

¹ For the Baseline treatment we used the original instructions by Falk and Kosfeld (2006). See Ziegelmeyer, Schmelz, and Ploner (2012), and Hagemann (2007) for the impact of the wording of the instructions on choices in the restriction game.

² In the last 7 sessions of the experiment we elicited agents’ beliefs about the behavior of others after they made their effort choices.

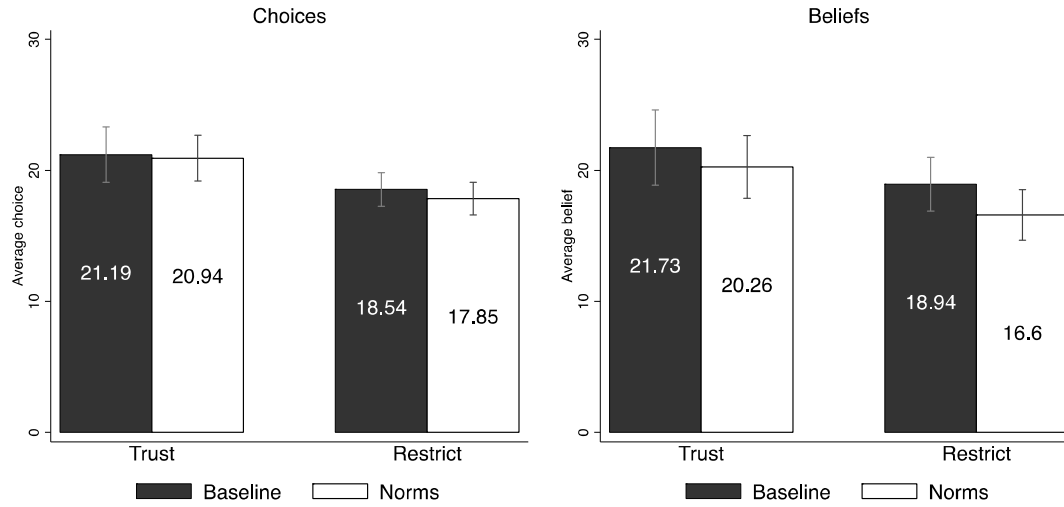


FIGURE C2 – AVERAGE EFFORTS AND BELIEFS IN THE RESTRICTION GAME EXPERIMENT

However, the Norms intervention does not change the average effort reaction and there are no significant differences between efforts in the Baseline and Norms settings and in the difference-in-difference (see Table A8 for more details). Hence, in contrast to our expectation, the Norms intervention does not lead to economically stronger costs of control. However, as in our main experiment the Norms intervention significantly reduces the variance of effort under the trust contract ($p = 0.0486$, Levene’s robust tests for equality of variances). The fact that agents are aware that principals are informed about behavior of others apparently decreases agents’ uncertainty about the norm and increases the similarity of behavior between agents which may explain why we see a statistically significant reduction of effort only in the Norms setting.

TABLE C1 – RESULTS OF THE RESTRICTION GAME

	Treatment	N of independent observations	Trust	Restrict	Δ Choice = Choice Trust – Choice Restrict	p -values WSR Trust vs. Restrict
Efforts	Baseline	79	21.19 (18.75)	18.54 (11.51)	2.65 (12.46)	0.2117
	Norm	78	20.94 (15.37)	17.84 (10.95)	3.09 (11.45)	
	p -values	MWU	0.9316	0.8477	0.694	
	Baseline vs. Norm	Variance test	0.0486	0.9483		
Beliefs	Baseline	49	21.73 (20.03)	18.94 (14.33)	2.80 (12.11)	0.2605
	Norm	50	20.26 (16.99)	16.6 (13.61)	3.66 (8.73)	
	p -values	MWU	0.9916	0.1831	0.3643	
	Baseline vs. Norm	Variance test	0.1087	0.6810		

Note: N indicates the number of independent observations. Standard deviations are reported in parentheses. All tests are two-sided.

References:

- Falk, A. and Kosfeld, M. (2006) 'The Hidden Costs of Control,' *The American Economic Review*, **96**, 1611–1630.
- Hagemann, P. (2007) 'What's in a Frame? On Demand Effects and Trust in Experimental Studies,' *Manuscript. University of Cologne*.
- Ziegelmeyer, A., Schmelz, K. and Ploner, M. (2012) 'Hidden Costs of Control: Four Repetitions and an Extension,' *Experimental Economics*, **15**, 323–340.

APPENDIX D. INSTRUCTIONS

INSTRUCTIONS FOR THE EMPLOYEES IN THE COSTLESS CONTRACT CHOICE EXPERIMENT

[The instructions were presented in German on the computer screens and programmed with zTree. To provide subjects with all necessary information during the experiment, beginning with the third screen we included an info-box at the bottom of the screen, where the subjects could re-read the instructions at any time. The text in brackets did not appear to participants.]

[SCREEN 1]

Welcome and thank you for participating in today's experiment.

Please read the instructions carefully. If you have any questions don't hesitate to raise your arm. We will then come to your place and answer your question privately.

In today's experiment you can earn money. In the course of the experiment you interact with one other participant. The other participant is assigned randomly and anonymously, which means you will never learn about the other participant's identity. Neither will the other participant be informed about your identity.

The amount of your payment depends on your decisions as well as on the decisions of other participants. At the end of the experiment you will receive your payment in cash. **In addition you receive a show-up fee of €2.50**, which is independent of the payment you receive from the experiment.

Communication is prohibited during the entire experiment. Please check that your mobile phone is turned off. A violation of these rules might lead to exclusion from this and any further experiments.

[continue button]

[SCREEN 2]

Please read the instructions carefully. You have to answer some questions afterwards in order to continue with the experiment.

INSTRUCTIONS

You were assigned the role of *the employee*. The other participant with whom you interact is going to be *the employer*.

Each participant receives an **initial endowment** of €6 at the beginning of the experiment.

PROJECT

The employee is responsible for the success of a project. For the project the employee can choose an effort between 0 and 100 which causes costs for him/her, depending on the level of effort. You can find the respective costs in the *enclosed* table.

The project's probability of success is equal to the chosen level of effort. This means if the employee chooses an effort level X the project will be completed successfully in X out of 100 cases (this equals a probability of success of X%) and remains without success in 100-X cases.

If the project is completed successfully the employer receives a profit of €12. In case of a failure, the employer will receive an amount of €0.

DECISION OF THE EMPLOYER

The employer decides about the form of compensation he wants to implement. He can select from the following compensation forms:

- Trust compensation: The employee receives an amount of €5 from the employer, independent of the project's success.
- Contingent compensation: The employee receives an amount of €5 from the employer only in case of success. If the project is not completed successfully, the employee receives €0.

DECISION OF THE EMPLOYEE

The **employee** chooses an effort level for each form of compensation.

Please note that the employer has no possibility of checking the level of effort of his assigned employee.

CALCULATION OF THE PAYMENT FROM THE PROJECT

The payoff for the employer is equal to the profit generated by the project minus the amount which he has to pay the employee.

That means, if the employer chooses the **trust compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0 minus the wage costs of €5 = €-5.

If the employer decides to use the **contingent compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0.

The payoff for the employee is equal to the amount he receives from the employer minus the costs of effort.

That means, if the employer chooses the **trust wage**, the payment of the employee is €5 minus the costs of effort (see the enclosed table).

If the employer decides to use the **contingent wage**, the employee receives €5 minus the costs of effort in case of a successfully completed experiment and otherwise €0, with the costs of effort subtracted from his/her account.

Both the employer and the employee will not be informed about their payments from the project before the end of the experiment.

[continue button]

[SCREEN 3]

Questions to check the understanding of the experiment

Please answer the following questions correctly to ensure that you have understood the experiment. If you have problems answering a question, please contact the experimenter. The questions are illustrative and do not indicate the actual behavior of other participants.

The experiment starts when each participant has answered all questions correctly.

1. How much is the initial endowment?

2. Which amount does the employer get if the project is successful (excluding wage costs and the initial endowment)?
3. Which amount does the employer get if the project is not successful (excluding wage costs and the initial endowment)?
4. The project's success depends on the effort of the employee. (Yes/No)
5. The employee can choose an effort level between 0 and 100. (Yes/No)
6. What are the wage costs the employer has to pay if he chooses the trust compensation?
7. If the employer chooses the trust compensation he receives an amount of €12 for sure. (Yes/No)
8. If the employer chooses the trust compensation the employee receives a salary of €5 from the employer in any case. (Yes/No)
9. What is the amount that the employee receives from the employer if the employer offers the contingent compensation and the project fails?
10. The employee earns the amount received from the employer minus the costs of effort (plus the initial endowment of €6). (Yes/No)
11. The employer earns the profit generated by the project (€0 or €12) minus the wage costs contingent on the chosen compensation type (plus the initial endowment of €6). (Yes/No)

[Here came the info-box with the instructions from the screen 2.]

[continue button]

[SCREEN 4]

You are an **employee**.

[The following text was displayed only in the Norms treatment:] **Note:** Before making the decision, the employer has information about the efforts of 10 other employees from the previous experiment. But the employer is participating for the first time. The employer sees the following table where instead of xx, the decisions of the employees from the past experiment are displayed.

[Table D1 was displayed only in the Norms treatment]

TABLE D1

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Effort under contingent compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

As an employee you have to decide about your level of effort. The employer chooses between a trust and a contingent compensation. Please state your level of effort now. You have to select your effort for both possible decisions of the employer. Afterwards you will be informed of the compensation your assigned employer has actually chosen. After pressing the “**Send**” button, the effort level you have typed in here is fixed. On this basis the project’s probability of success and the payments will be calculated. By pressing the “**Calculate payment**” button you can non-bindingly calculate your expected payment.

[Here the calculator was displayed, which is shown on the next page:]

Which effort level do you choose if the employer selects the **trust compensation**? “I, employer, select the trust compensation. As employee you receive an amount of €5.00. This amount will be transferred to you from my account independent of the result of the project.”

Your level of effort for the trust compensation:

Which effort level do you choose if the employer selects the **contingent compensation**? “I, employer, select the contingent wage. As employee you can earn an amount of €5.00. This amount will be transferred to you from my account only in case of a successful project.”

Your level of effort for the contingent compensation:

Calculation of the payments **under the trust compensation**:

The project’s probability of success is (in %):

Under the trust compensation you receive €5.00, independent of the project’s success.

For the effort you choose **your payoff** amounts to (in €):

The employer receives €12.00 in the case of success and €0 if the project is not successful.

The employer has to pay the wage costs of €5.00 in any case.

For the effort you choose the **expected** payment to the **employer** amounts to (in €):

Calculation of the payments under the **contingent compensation**:

The project’s probability of success is (in %):

Under the contingent compensation you will receive €5.00 in case of success and €0 if the project is not successful.

For the effort you choose your **expected payoff** amounts to (in €):

The employer receives €12.00 in case of success and €0 if the project is not successful.

He has to pay the wage costs of €5.00 only if the project is successful.

For the effort you choose, the **expected** payment of the **employer** amounts to (in €):

FIGURE D1 – ON-SCREEN CALCULATOR

Please note that this is your actual decision. You will be informed about the form of compensation the employer has selected at the end of the experiment. Depending on the selected form of compensation your decision about your level of effort will determine the project's probability of success and will therefore also be relevant for your payment and the payment of your employer.

<Here the info box with the instructions from screen2.>

Calculate payment

Send

[SCREEN 5.1 –in sessions conducted in 2014]

What is your estimate of the behavior of other employees?

In the following, we will ask you to estimate the behavior of other participants in the experiment today.

Please think carefully about your answers! The better your answer matches the actual average values from today's experiment, the higher your earnings for the respective question.

On the next screen you will receive two questions. For each question you can earn the following amount:

- a) You receive **€2** for a correct guess (i.e., your answer corresponds exactly to the average behavior).
- b) If your guess deviates by not more than 14 units from the correct average value, you receive **€2 minus 1 cent for each unit of the square deviation between your guess and the correct value.**
- c) If your guess deviates by more than 15 units from the correct value, you receive **€0**

For example, if your estimate is wrong by

... 1 unit, you receive €1.99.

... 5 units, you receive €1.75.

... 10 units, you receive €1.

... 14 units, you receive €0.04.

... 15 units or more, you receive €0.

[continue button]

[SCREEN 5.2 –in sessions conducted in 2014]

Please give us your best estimate of the behavior of other employees in the experiment today.

Please think carefully about your answers! The better your answer matches the actual average values from today's experiment, the higher your earnings for the respective question.

Please round to the nearest whole number!

What is the average level of effort chosen by other employees in the experiment under the trust compensation? _____

What is the average level of effort chosen by other employees in the experiment under the contingent compensation? _____

[continue button]

[SCREEN 6]

Your payment from the experiment:

The employer has chosen the **trust/contingent compensation**.

You have selected an effort level of <xxx>.

You have costs of <xxx> **Euro**.

The project was **successful/not successful**.

You receive a salary of **5.00 Euro**.

Therefore your payment (including the initial endowment) is <xxx> Euro.

[continue button]

INSTRUCTIONS FOR THE EMPLOYERS IN THE COSTLESS CONTRACT CHOICE EXPERIMENT

[The instructions were presented in German on the computer screens and programmed with zTree. To provide subjects with all necessary information during the experiment, beginning with the third screen we included an info-box at the bottom of the screen, where the subjects could re-read the instructions at any time. The text in brackets did not appear to participants.]

[SCREEN 1]

Welcome and thank you for participating in today's experiment.

Please read the instructions carefully. If you have any questions don't hesitate to raise your arm. We will then come to your place and answer your question privately.

In today's experiment you can earn money. In the course of the experiment you interact with one other participant. The other participant is assigned randomly and anonymously, which means you will never learn about the other participant's identity. Neither will the other participant be informed about your identity.

The amount of your payment depends on your decisions as well as on the decisions of other participants. At the end of the experiment you will receive your payment in cash. **In addition you receive a show-up fee of €2.50**, which is independent of the payment you receive from the experiment.

Communication is prohibited during the entire experiment. Please check that your mobile phone is turned off. A violation of these rules might lead to exclusion from this and any further experiments.

[continue button]

[SCREEN 2]

Please read the instructions carefully. You have to answer some questions afterwards in order to continue with the experiment.

INSTRUCTIONS

You were assigned the role of *the employer*. The other participant with whom you interact is going to be *the employee*.

Each participant receives an **initial endowment** of €6 at the beginning of the experiment.

PROJECT

The employee is responsible for the success of a project. For the project the employee can choose an effort between 0 and 100 which causes costs for him/her, depending on the level of effort. You can find the respective costs in the *enclosed* table.

The project's probability of success is equal to the chosen level of effort. This means if the employee chooses an effort level X the project will be completed successfully in X out of 100 cases (this equals a probability of success of X%) and remains without success in 100-X cases.

If the project is completed successfully the employer receives a profit of €12. In case of a failure, the employer will receive an amount of €0.

DECISION OF THE EMPLOYER

The employer decides about the form of compensation he wants to implement. He can select from the following compensation forms:

- Trust compensation: The employee receives an amount of €5 from the employer, independent of the project's success.
- Contingent compensation: The employee receives an amount of €5 from the employer only in case of success. If the project is not completed successfully, the employee receives €0.

DECISION OF THE EMPLOYEE

The **employee** chooses an effort level for each form of compensation.

Please note that the employer has no possibility of checking the level of effort of his assigned employee.

CALCULATION OF THE PAYMENT FROM THE PROJECT

The payoff for the employer is equal to the profit generated by the project minus the amount which he has to pay the employee.

That means, if the employer chooses the **trust compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0 minus the wage costs of €5 = €-5.

If the employer decides to use the **contingent compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0.

The payoff for the employee is equal to the amount he receives from the employer minus the costs of effort.

That means, if the employer chooses the **trust wage**, the payment of the employee is €5 minus the costs of effort (see the enclosed table).

If the employer decides to use the **contingent wage**, the employee receives €5 minus the costs of effort in case of a successfully completed experiment and otherwise €0, with the costs of effort subtracted from his/her account.

Both the employer and the employee will not be informed about their payments from the project before the end of the experiment.

[continue button]

[SCREEN 3]

Questions to check the understanding of the experiment

Please answer the following questions correctly to ensure that you have understood the experiment. If you have problems answering a question, please contact the experimenter. The questions are illustrative and do not indicate the actual behavior of other participants.

The experiment starts when each participant has answered all questions correctly.

1. How much is the initial endowment?

2. Which amount does the employer get if the project is successful (excluding wage costs and the initial endowment)?
3. Which amount does the employer get if the project is not successful (excluding wage costs and the initial endowment)?
4. The project's success depends on the effort of the employee. (Yes/No)
5. The employee can choose an effort level between 0 and 100. (Yes/No)
6. What are the wage costs the employer has to pay if he chooses the trust compensation?
7. If the employer chooses the trust compensation he receives an amount of €12 for sure. (Yes/No)
8. If the employer chooses the trust compensation the employee receives a salary of €5 from the employer in any case. (Yes/No)
9. What is the amount that the employee receives from the employer if the employer offers the contingent compensation and the project fails?
10. The employee earns the amount received from the employer minus the costs of effort (plus the initial endowment of €6). (Yes/No)
11. The employer earns the profit generated by the project (€0 or €12) minus the wage costs, contingent on the chosen compensation type (plus the initial endowment of €6). (Yes/No)

[Here came the info-box with the instructions from the screen 2.]

[continue button]

[SCREEN 4]

You are an **employer**.

[The following text was displayed Norms treatment only:] **Here are decisions about effort from 10 participants of the last session of this experiment who were in the role of employees:**

[Table D2 was displayed in Norms treatment only. The numbers varied between sessions.:]

TABLE D2

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	60	34	0	20	69	60	0	18	25	0
Effort under contingent compensation	25	60	31	25	60	70	45	38	10	65

[The following text was displayed Norms treatments only:] Please note that your assigned employee has never participated in this experiment before. Additionally, he is not informed about the levels of effort of the employees in the previous experiment. He knows, however, that you are informed about these.

YOUR DECISION

As employer you can decide which of the following forms of compensation you want to implement for your assigned employee:

- The **trust compensation**: “I, employer, select the trust **compensation**. As employee you receive an amount of €5.00. This amount will be transferred to you from my account independent of the result of the project.”
- The **contingent compensation**: “I, employer, select the contingent **compensation**. As employee you can earn an amount of €5.00. This amount will be transferred to you from my account only in case of a successful project.”

Please note that the employee makes his/her decision about the level of effort for each form of compensation separately. He/she won't be informed about the form of compensation you actually have selected before he/she has made the decision. Relevant for your and the employee's payment is only the level of effort for the form of compensation you have selected.

Which form of compensation do you choose?

- I choose the trust compensation.
- I choose the contingent compensation.

[Here the info box with instructions from the screen 2.]

[continue button]

[SCREEN 5]

Your payment from the first part of the experiment:

You have chosen the **trust /contingent compensation**.

The **project** was **successful/not successful**.

From this you receive <xxx> **Euro**.

The resulting wage costs are <xxx> **Euro**.

Additionally you get the initial endowment of 6 Euro.

Therefore your payment (including the initial endowment) is <xxx> **Euro**.

[continue button]

PAPER-HANDOUT DISTRIBUTED TO THE PARTICIPANTS IN THE COSTLESS EXPERIMENT

Reminder: Calculation of the payoffs from the project

The employer has selected the....	Trust compensation		Contingent compensation	
The project was...	Successful	Not successful	Successful	Not successful
The employer's payoff is...	$€12 - €5 = €7$	$€0 - €5 = €-5$	$€12 - €5 = €7$	$€0$
The employee's payoff is...	$€5 - \text{costs of effort}$	$€5 - \text{costs of effort}$	$€5 - \text{costs of effort}$	$€0 - \text{costs of effort}$

Additionally, each participant receives an initial endowment of €6.00.

Both employer and employee are informed about the payment at the end of the experiment.

Costs

Effort	Costs (in €)	Effort	Costs (in €)	Effort	Costs (in €)	Effort	Costs (in €)
0	0.00	25	0.52	50	2.08	75	4.69
1	0.00	26	0.56	51	2.17	76	4.81
2	0.00	27	0.61	52	2.25	77	4.94
3	0.01	28	0.65	53	2.34	78	5.07
4	0.01	29	0.70	54	2.43	79	5.20
5	0.02	30	0.75	55	2.52	80	5.33
6	0.03	31	0.80	56	2.61	81	5.47
7	0.04	32	0.85	57	2.71	82	5.60
8	0.05	33	0.91	58	2.80	83	5.74
9	0.07	34	0.96	59	2.90	84	5.88
10	0.08	35	1.02	60	3.00	85	6.02
11	0.10	36	1.08	61	3.10	86	6.16
12	0.12	37	1.14	62	3.20	87	6.31
13	0.14	38	1.20	63	3.31	88	6.45
14	0.16	39	1.27	64	3.41	89	6.60
15	0.19	40	1.33	65	3.52	90	6.75
16	0.21	41	1.40	66	3.63	91	6.90
17	0.24	42	1.47	67	3.74	92	7.05
18	0.27	43	1.54	68	3.85	93	7.21
19	0.30	44	1.61	69	3.97	94	7.36
20	0.33	45	1.69	70	4.08	95	7.52
21	0.37	46	1.76	71	4.20	96	7.68
22	0.40	47	1.84	72	4.32	97	7.84
23	0.44	48	1.92	73	4.44	98	8.00
24	0.48	49	2.00	74	4.56	99	8.17
						100	8.33

INSTRUCTIONS FOR THE EMPLOYEES IN THE COSTLY CONTRACT CHOICE EXPERIMENT

[These instructions were largely the same as in the Costless treatments. The differences to the Costless treatments are highlighted in yellow. The instructions were presented in German on the computer screens and programmed with zTree. To provide subjects with all necessary information during the experiment, beginning with the third screen we included an info-box at the bottom of the screen. There the subjects could re-read the instructions at any time. The text in the brackets did not appear to participants.]

[SCREEN 1 – Identical to the Costless treatments]

[SCREEN 2]

Please read the instructions carefully. You have to answer some questions afterwards in order to continue with the experiment.

INSTRUCTIONS

You were assigned the role of *the employee*. The other participant with whom you interact is going to be *the employer*.

Each participant receives an **initial endowment** of €6 at the beginning of the experiment.

PROJECT

The employee is responsible for the success of a project. For the project the employee can choose an effort between 0 and 100 which causes costs for him/her, depending on the level of effort. You can find the respective costs in the *enclosed* table.

The project's probability of success is equal to the chosen level of effort. This means if the employee chooses an effort level X the project will be completed successfully in X out of 100 cases (this equals a probability of success of $X\%$) and remains without success in $100-X$ cases.

If the project is completed successfully the employer receives a profit of €12. In case of a failure, the employer will receive an amount of €0.

DECISION OF THE EMPLOYER

The employer decides about the form of compensation he wants to implement. He can select from the following compensation forms:

- Trust compensation: The employee receives an amount of €5 from the employer, independent of the project's success.
- Contingent compensation: The employee receives an amount of €5 from the employer only in case of success. If the project is not completed successfully, the employee receives €0. The contingent compensation causes the principal costs of €2. This costs apply regardless of the project success.

DECISION OF THE EMPLOYEE

The **employee** chooses an effort level for each form of compensation.

Please note that the employer has no possibility of checking the level of effort of his assigned employee.

CALCULATION OF THE PAYMENT FROM THE PROJECT

The payoff for the employer is equal to the profit generated by the project minus the amount which he has to pay the employee.

That means, if the employer chooses the **trust compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0 minus the wage costs of €5 = €-5.

If the employer decides to use the **contingent compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0. **In either case the employer has to bear additional costs of €2 for this compensation choice.**

The payoff for the employee is equal to the amount he receives from the employer minus the costs of effort.

That means, if the employer chooses the **trust wage**, the payment of the employee is €5 minus the cost of effort (see the enclosed table).

If the employer decides to use the **contingent wage**, the employee receives €5 minus the costs of effort in case of a successfully completed experiment and otherwise €0, with the costs of effort subtracted from his/her account.

Both the employer and the employee will not be informed about their payments from the project before the end of the experiment.

[continue button]

[SCREEN 3]

Questions to check the understanding of the experiment

Please answer the following questions correctly to ensure that you have understood the experiment. If you have problems answering a question, please contact the experimenter. The questions are illustrative and do not indicate the actual behavior of other participants.

The experiment starts when each participant has answered all questions correctly.

1. How much is the initial endowment?
2. Which amount does the employer get if the project is successful (excluding wage costs and the initial endowment)?
3. Which amount does the employer get if the project is not successful (excluding wage costs and the initial endowment)?
4. The project's success depends on the effort of the employee. (Yes/No)
5. The employee can choose an effort level between 0 and 100. (Yes/No)
6. What are the wage costs the employer has to pay if he chooses the trust compensation?
7. If the employer chooses the trust compensation he receives an amount of €12 for sure. (Yes/No)
8. If the employer chooses the trust compensation the employee receives a salary of €5 from the employer in any case. (Yes/No)

9. What is the amount the employee receives from the employer if the employer offers the contingent compensation and the project fails?

10. The employee earns the amount received from the employer minus the costs of effort (plus the initial endowment of €6). (Yes/No)

11. The employer earns the profit generated by the project (0 or €12) minus the wage costs contingent on the chosen compensation type (plus the initial endowment of €6) minus the costs of the compensation type (0 or €2). (Yes/No)

[Here came the info-box with the instructions from the screen 2.]

[continue button]

[SCREEN 4]

You are an **employee**.

[The following text was displayed Norms treatment only:] **Note:** Before making the decision, the employer has information about the efforts of 10 other employees from the previous experiment. But the employer is participating for the first time. The employer sees the following table where instead of xx, the decisions of the employees from the past experiment are displayed.

[Table D3 was displayed in Norms treatment only]

TABLE D3

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Effort under contingent compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

As an employee you have to decide about your level of effort. The employer chooses between a trust and a contingent compensation. Please state your level of effort now. You have to select your effort for both possible decisions of the employer. Afterwards you will be informed of the compensation your assigned employer has actually chosen. After pressing the “**Send**” button, the effort level you have typed in here is fixed. On this basis the project’s probability of success and the payments will be calculated.

By pressing the “**Calculate payment**” button you can non-bindingly calculate your expected payment.

[Calculator is shown on the next page:]

Which effort level do you choose if the employer selects the **trust compensation**? “I, employer, select the trust compensation. As employee you receive an amount of €5.00. This amount will be transferred to you from my account independent of the result of the project.”

Your level of effort for the trust compensation:

Which effort level do you choose if the employer selects the **contingent compensation**? “I, employer, select the contingent wage. As employee you can earn an amount of €5.00. This amount will be transferred to you from my account only in case of a successful project.”

Your level of effort for the contingent compensation:

Calculation of the payments **under the trust compensation**:

The project’s probability of success is (in %):

Under the trust compensation you receive €5.00, independent of the project’s success.

For the effort you choose **your payoff** amounts to (in €):

The employer receives €12.00 in the case of success and €0 if the project is not successful.

The employer has to pay the wage costs of €5.00 in any case.

For the effort you choose the **expected** payment to the **employer** amounts to (in €):

Calculation of the payments under the **contingent compensation**:

The project’s probability of success is (in %):

Under the contingent compensation you will receive €5.00 in case of success and €0 if the project is not successful.

For the effort you choose your **expected payoff** amounts to (in €):

The employer receives €12.00 in case of success and €0 if the project is not successful.

He has to pay the wage costs of €5.00 only if the project is successful.

The contingent compensation costs the employer €2.00.

For the effort you choose, the **expected** payment of the **employer** amounts to (in €):

FIGURE D2 – ON-SCREEN CALCULATOR

Please note that this is your actual decision. You will be informed about the form of compensation the employer has selected at the end of the experiment. Depending on the selected form of compensation your decision about your level of effort will determine the project's probability of success and will therefore also be relevant for your payment and the payment of your employer.

<Here the info box with the instructions from screen2.>

Calculate payment

Send

[SCREEN 5.1 –in sessions conducted in 2014]

What is your estimate of the behavior of other employees?

In the following, we will ask you to estimate the behavior of other participants in the experiment today.

Please think carefully about your answers! The better your answer matches the actual average values from today's experiment, the higher your earnings for the respective question.

On the next screen you will receive two questions. For each question you can earn the following amount:

- d) You receive **€2** for a correct guess (i.e., your answer corresponds exactly to the average behavior).
- e) If your guess deviates by not more than 14 units from the correct average value, you receive **€2 minus 1 cent for each unit of the square deviation between your guess and the correct value.**
- f) If your guess deviates by more than 15 units from the correct value, you receive **€0**

For example, if your estimate is wrong by

... 1 unit, you receive €1.99.

... 5 units, you receive €1.75.

... 10 units, you receive €1.

... 14 units, you receive €0.04.

... 15 units or more, you receive €0.

[continue button]

[SCREEN 5.2 –in sessions conducted in 2014]

Please give us your best estimate of the behavior of other employees in the experiment today.

Please think carefully about your answers! The better your answer matches the actual average values from today's experiment, the higher your earnings for the respective question.

Please round to the nearest whole number!

What is the average level of effort chosen by other employees in the experiment under the trust compensation? _____

What is the average level of effort chosen by other employees in the experiment under the contingent compensation? _____

[continue button]

[SCREEN 6]

Your payment from the experiment:

The employer has chosen the **trust/contingent compensation**.

You have selected an effort level of <xxx>.

You have costs of <xxx> **Euro**.

The project was **successful/not successful**.

You receive a salary of **5.00 Euro**.

Therefore your payment (including the initial endowment) is <xxx> Euro.

[continue button]

INSTRUCTIONS FOR THE EMPLOYERS THE COSTLY CONTRACT CHOICE EXPERIMENT

[These instructions were largely the same as in the Costless treatments. The differences to the Costless treatments are highlighted in yellow. The instructions were presented in German on the computer screens and programmed with zTree. To provide subjects with all necessary information during the experiment, beginning with the third screen we included an info-box at the bottom of the screen. There the subjects could re-read the instructions at any time. The text in the brackets did not appear to participants.]

[SCREEN 1 – Identical to the Costless treatments]

[SCREEN 2]

Please read the instructions carefully. You have to answer some questions afterwards in order to continue with the experiment.

INSTRUCTIONS

You were assigned the role of *the employer*. The other participant with whom you interact is going to be *the employee*.

Each participant receives an **initial endowment** of €6 at the beginning of the experiment.

PROJECT

The employee is responsible for the success of a project. For the project the employee can choose an effort between 0 and 100 which causes costs for him/her, depending on the level of effort. You can find the respective costs in the *enclosed* table.

The project's probability of success is equal to the chosen level of effort. This means if the employee chooses an effort level X the project will be completed successfully in X out of 100 cases (this equals a probability of success of $X\%$) and remains without success in $100-X$ cases.

If the project is completed successfully the employer receives a profit of €12. In case of a failure, the employer will receive an amount of €0.

DECISION OF THE EMPLOYER

The employer decides about the form of compensation he wants to implement. He can select from the following compensation forms:

- Trust compensation: The employee receives an amount of €5 from the employer, independent of the project's success.
- Contingent compensation: The employee receives an amount of €5 from the employer only in case of success. If the project is not completed successfully, the employee receives €0. **The contingent compensation causes principal costs of €2. This costs apply irregardless of the project success.**

DECISION OF THE EMPLOYEE

The **employee** chooses an effort level for each form of compensation.

Please note that the employer has no possibility of checking the level of effort of his assigned employee.

CALCULATION OF THE PAYMENT FROM THE PROJECT

The payoff for the employer is equal to the profit generated by the project minus the amount which he has to pay the employee.

That means, if the employer chooses the **trust compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0 minus the wage costs of €5 = €-5.

If the employer decides to use the **contingent compensation** his payment is €12 minus the wage costs of €5 = €7 in case of a successfully completed project and otherwise €0. **In either case the employer has to bear additional costs of €2 for this compensation choice.**

The payoff for the employee is equal to the amount he receives from the employer minus the costs of effort.

That means, if the employer chooses the **trust wage**, the payment of the employee is €5 minus the cost of effort (see the enclosed table).

If the employer decides to use the **contingent wage**, the employee receives €5 minus the costs of effort in case of a successfully completed experiment and otherwise €0, with the costs of effort subtracted from his/her account.

Both the employer and the employee will not be informed about their payments from the project before the end of the experiment.

[continue button]

[SCREEN 3]

Questions to check the understanding of the experiment

Please answer the following questions correctly to ensure that you have understood the experiment. If you have problems answering a question, please contact the experimenter. The questions are illustrative and do not indicate the actual behavior of other participants.

The experiment starts when each participant has answered all questions correctly.

1. How much is the initial endowment?
2. Which amount does the employer get if the project is successful (excluding wage costs and the initial endowment)?
3. Which amount does the employer get if the project is not successful (excluding wage costs and the initial endowment)?
4. The project's success depends on the effort of the employee. (Yes/No)
5. The employee can choose an effort level between 0 and 100. (Yes/No)
6. What are the wage costs the employer has to pay if he chooses the trust compensation?
7. If the employer chooses the trust compensation he receives an amount of €12 for sure. (Yes/No)
8. If the employer chooses the trust compensation the employee receives a salary of €5 from the employer in any case. (Yes/No)

9. What is the amount the employee receives from the employer if the employer offers the contingent compensation and the project fails?

10. The employee earns the amount received from the employer minus the costs of effort (plus the initial endowment of €6). (Yes/No)

11. The employer earns the profit generated by the project (0 or €12) minus the wage costs contingent on the chosen compensation type (plus the initial endowment of €6) **minus the costs of the compensation type (0 or €2)**. (Yes/No)

[Here came the info-box with the instructions from the screen 2.]

[continue button]

[SCREEN 4 –in sessions conducted in 2013]

You are an **employer**.

[The following text was displayed Norms treatments only:] **Here are decisions about effort from 10 participants of the last session of this experiment who were in the role of employees:**

[Table D4 was displayed in Norms treatments only. The numbers varied between sessions:]

TABLE D4

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	70	63	0	34	65	2	25	2	2	25
Effort under contingent compensation	50	51	32	60	65	60	50	11	60	50

[The following text was displayed Norms treatments only:] Please note that your assigned employee has never participated in this experiment before. Additionally, he is not informed about the levels of effort of the employees in the previous experiment. He knows, however, that you are informed about these.

YOUR DECISION

As employer you can decide which of the following forms of compensation you want to implement for your assigned employee:

- The **trust compensation**: “I, employer, select the trust **compensation**. As employee you receive an amount of €5.00. This amount will be transferred to you from my account independent of the result of the project.”
- The contingent compensation: “I, employer, select the contingent compensation. As employee you can earn an amount of €5.00. This amount will be transferred to you from my account only in case of a successful project.” **Note, if you choose contingent compensation, the costs of €2.00 will be deducted from your account.**

Please note that the employee makes his/her decision about the level of effort for each form of compensation separately. He/she won't be informed about the form of compensation you actually have

selected before he/she has made the decision. Relevant for you and the employee's payment is only the level of effort for the form of compensation you have selected.

Which form of compensation do you choose?

- I choose the trust compensation.
- I choose the contingent compensation.

[Here the info box with instructions from the screen 2.]

[continue button]

[SCREEN 4.1 – in 6 sessions conducted in 2014]

You are an **employer**.

We have also conducted this experiment in the past. Before you make a decision, you will receive information about effort from 10 participants in a past session of this experiment who were in the role of employees.

On the next screen you will see tables like this one:

TABLE D5

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Effort under contingent compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

Instead of xx you will see numbers.

You will see 5 tables of this kind. Each table presents possible decisions of 10 employees from the past experiment. But, only one table corresponds the actual employees' decisions from the past experiment.

Hence, we will ask you to choose one compensation form for each table.

The compensation that you choose for the table that comes from a previous experiment will be implemented for your assigned employee. The employee's effort under this compensation choice will determine your payoff. Your decision for that table will thus be relevant for your earnings and the earnings of the assigned employee.

Note, your assigned employee has not taken part in this experiment before. He/she will not learn about the effort levels of the other employees from the past experiment.

[The following text was displayed Baseline treatments only:] Also, your assigned employee does not know that you have information about past effort levels.

[The following text was displayed Norms treatments only:] Your assigned, employee knows that you know past effort levels of other employees from a previous experiment. But he/she doesn't know the effort levels.

Make a decision for each table:

As employer you can decide which of the following forms of compensation you want to implement for your assigned employee:

- The **trust compensation**: "I, employer, select the trust **compensation**. As employee you receive an amount of €5.00. This amount will be transferred to you from my account independent of the result of the project."
- The contingent compensation: "I, employer, select the contingent compensation. As employee you can earn an amount of €5.00. This amount will be transferred to you from my account only in case of a successful project."

Note, if you choose contingent compensation, the costs of €2.00 will be deducted from your account if this table is the one from the previous experiment.

[Here the info box with instructions from the screen 2.]

[continue button]

[SCREEN 4.2 – in 6 sessions conducted in 2014, half of the subjects viewed the table list in reversed order]

Which compensation form do you choose for your assigned employee if these are the actual decisions of employees from the past experiment?

TABLE D6 – INFORMATION DISPLAYED TO EMPLOYERS IN 6 SESSIONS OF THE COSTLY TREATMENTS (TRANSLATED FROM GERMAN)

Table 1	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	0	5	2	60	0	55	0	2	71	25
Effort under contingent compensation	30	60	50	80	45	2	33	15	30	50

Trust compensation
 Contingent compensation

Table 2	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	50	34	70	60	0	75	2	80	48	45
Effort under contingent compensation	25	60	2	10	32	29	30	30	35	2

Trust compensation
 Contingent compensation

Table 3	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	60	70	40	0	63	55	60	89	55	89
Effort under contingent compensation	30	50	30	28	50	2	50	45	29	60

Trust compensation
 Contingent compensation

Table 4	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	2	63	0	34	65	2	25	70	2	25
Effort under contingent compensation	11	51	32	60	65	60	50	50	60	50

Trust compensation
 Contingent compensation

Table 5	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	55	60	0	55	60	89	56	2	60	50
Effort under contingent compensation	9	80	57	35	30	60	24	2	70	40

Trust compensation
 Contingent compensation

[SCREEN 5 – in sessions conducted in 2014, an example of reversed order]

Please give us your best estimate, how likely is each table to be the one from the past experiment.
from 1 'very unlikely' to 5 'very likely'.

	Employee number										
	1	2	3	4	5	6	7	8	9	10	
Table 1											
Effort under trust compensation	55	60	0	55	60	89	56	2	60	50	1 'very unlikely' <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> 5 'very likely'
Effort under contingent compensation	9	80	57	35	30	60	24	2	70	40	
Table 2											
Effort under trust compensation	2	63	0	34	65	2	25	70	2	25	1 'very unlikely' <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> 5 'very likely'
Effort under contingent compensation	11	51	32	60	65	60	50	50	60	50	
Table 3											
Effort under trust compensation	60	70	40	0	63	55	60	89	55	89	1 'very unlikely' <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> 5 'very likely'
Effort under contingent compensation	30	50	30	28	50	2	50	45	29	60	
Table 4											
Effort under trust compensation	50	34	70	60	0	75	2	80	48	45	1 'very unlikely' <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> 5 'very likely'
Effort under contingent compensation	25	60	2	10	32	29	30	30	35	2	
Table 5											
Effort under trust compensation	0	5	2	60	0	55	0	2	71	25	1 'very unlikely' <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> 5 'very likely'
Effort under contingent compensation	30	60	50	80	45	2	33	15	30	50	

weiter

[SCREEN 6]

Your payment from the the experiment:

You have chosen the **trust /contingent compensation**.

[Only in case of contingent compensation:] This compensation costs €2.

The **project** was **successful/not successful**.

From this you receive <xxx> **Euro**.

The resulting wage costs are <xxx> **Euro**.

Additionally you get the initial endowment of 6 Euro.

Therefore your payment (including the initial endowment) is <xxx> **Euro**.

[continue button]

PAPER-HANDOUT DISTRIBUTED TO THE PARTICIPANTS IN THE COSTLY EXPERIMENT

Reminder: Calculation of the payoffs from the project

The employer has selected the....	Trust compensation		Contingent compensation	
	Successful	Not successful	Successful	Not successful
The project was...	Successful	Not successful	Successful	Not successful
The employer's payoff is...	€12 - €5 = €7	€0 - €5 = €-5	€12 - €5 - €2 = €5	€0 - €2 = -€2
The employee's payoff is...	€5 - costs of effort	€5 - costs of effort	€5 - costs of effort	€0 - costs of effort

Additionally, each participant receives an initial endowment of €6.00.

Both employer and employee are informed about the payment at the end of the experiment.

Costs

Effort	Costs (in €)
0	0.00
1	0.00
2	0.00
3	0.01
4	0.01
5	0.02
6	0.03
7	0.04
8	0.05
9	0.07
10	0.08
11	0.10
12	0.12
13	0.14
14	0.16
15	0.19
16	0.21
17	0.24
18	0.27
19	0.30
20	0.33
21	0.37
22	0.40
23	0.44
24	0.48

Effort	Costs (in €)
25	0.52
26	0.56
27	0.61
28	0.65
29	0.70
30	0.75
31	0.80
32	0.85
33	0.91
34	0.96
35	1.02
36	1.08
37	1.14
38	1.20
39	1.27
40	1.33
41	1.40
42	1.47
43	1.54
44	1.61
45	1.69
46	1.76
47	1.84
48	1.92
49	2.00

Effort	Costs (in €)
50	2.08
51	2.17
52	2.25
53	2.34
54	2.43
55	2.52
56	2.61
57	2.71
58	2.80
59	2.90
60	3.00
61	3.10
62	3.20
63	3.31
64	3.41
65	3.52
66	3.63
67	3.74
68	3.85
69	3.97
70	4.08
71	4.20
72	4.32
73	4.44
74	4.56

Effort	Costs (in €)
75	4.69
76	4.81
77	4.94
78	5.07
79	5.20
80	5.33
81	5.47
82	5.60
83	5.74
84	5.88
85	6.02
86	6.16
87	6.31
88	6.45
89	6.60
90	6.75
91	6.90
92	7.05
93	7.21
94	7.36
95	7.52
96	7.68
97	7.84
98	8.00
99	8.17
100	8.33

EXHIBIT FROM THE INSTRUCTIONS FOR ONLINE BELIEF ELICITATION EXPERIMENT
 (“TRUST CONTRACT BELIEFS”)

Your task today is to answer questions regarding one previously conducted experiment and estimate how other participants decided while participating in this experiment. The amount you earn today depends on the accuracy of your estimation of the behavior in this past experiment (i.e., how close it is to the actual behavior). Therefore it is very important that you understand the instructions of the original experiment. Please carefully read the description below about the previously conducted experiment:

[The description of the experiment was adapted from screen 2 of the Baseline Costless treatment.]

[Quiz-questions. See screen 3 of the Costless treatments for more details.]

We ran several sessions of the experiment described above during the past weeks in the Cologne Laboratory for the Experimental Research.

The first experimental session was conducted exactly according to the description above. Also, the second session (with different participants) was conducted according to the above described instructions. The only new feature was that employers received additional information before they chose a form of compensation. Namely, they were informed about the employees’ decisions from a previous experimental session.

Before each employer made a decision, he was shown information about the efforts for both forms of compensation from 10 employees of the previous experiment. The participants in the role of employers saw a table of the following kind:

TABLE D7

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	Xx
Effort under contingent compensation	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

Instead of xx, were displayed the decisions of the employees from the past experiment. Thus, an employer could get an idea about the employees' actions in a past experiment.

We randomly picked one employer. On the next screen you will be informed about his choice of either trust compensation or contingent compensation. **Your task** is to estimate what information the employer saw. Remember that this is **the real decision** of a participant in the role of the employer, who had information about **real decisions of the employees** from a previous experiment.

Your assigned employer chose **contingent compensation**.

Please estimate what information this employer has received about the behavior of employees in the first experiment. **Your task** consists specifically of estimating the average effort levels for both forms of compensation in the table viewed by the employer. **Note that this employer received information about employees' decisions with regard to the trust compensation as well as the contingent compensation before making the decision cited above.**

You now are aware of the employer's decision and are asked to guess what information this employer observed prior to *his decision*. The closer your estimates are to the actual averages seen by the employer, the greater your earnings will be in this experiment. As a reminder, here you can again view the cost table and structure of the table viewed by the employer prior to his selection of the contingent compensation.

In your opinion, what is the average level of effort that the employer observed in the table in the row "effort under trust compensation"? Choose a value between 0 and 100 (only whole numbers are allowed).

In your opinion, what is the average level of effort that the employer observed in the table in the row "effort under contingent compensation"? Choose a value between 0 and 100 (only whole numbers are allowed).

Your earnings for each questions will be calculated as follows: You receive €3 for each correct guess (i.e., your answer corresponds exactly to the average behavior). The greater your estimate deviates from the actual average, the more will be deducted from €3. This is calculated according to the following formula: $€3 - 0.1 * (\text{Your estimation} - \text{actual value}) * (\text{Your estimation} - \text{actual value})$.

If your guess deviates by more than 17 units from the actual average value, you receive €0.

For example, if your guess for the first (second) average value deviates by ... 1 unit, you receive €2.99.

... 5 units, you receive €2.75.

... 10 units, you receive €2.

... 15 units, you receive €0.75.

... 18 units or more, you receive €0.

EXHIBIT FROM THE INSTRUCTIONS FOR THE EXPLICIT NORM DISCLOSURE EXPERIMENT

[SCREEN 1, 2, 3 and 5 were identical to those in the Costless treatments]

[SCREEN 4 - Employees]

You are an **employee**.

Note: You (but not the employer) have the following information about the efforts of 10 selected employees from the previous experiment. The employer doesn't have this information. However, he is aware that you have it.

[Prosocial Norm treatment]

TABLE D8

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	34	0	27	35	10	18	0	11	20	35
Effort under contingent compensation	60	45	51	70	10	38	65	49	25	58

[Selfish Norm treatment]

TABLE D9

	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Employee 6	Employee 7	Employee 8	Employee 9	Employee 10
Effort under trust compensation	70	60	80	100	25	25	60	51	60	70
Effort under contingent compensation	60	41	50	77	10	38	70	48	25	60

[From here on, the remaining text on the Screen 4 was the same as in the Costless treatments: "As an employee you have to decide about your level of effort. The employer chooses between a trust and a contingent compensation...."]

NOTE ABOUT INSTRUCTIONS FOR THE RESTRICTION GAME (“COST OF CONTROL”)

[The instructions for this experiment (including the quiz) were identical to the instructions for the C10 treatment by Falk and Kosfeld (2006). The English translation can be found here:

https://www.aeaweb.org/aer/data/dec06/20040599_app.pdf

The exchange rate was 1 point to 10 Euro cents. The instructions were presented on screen, with a reminder box on the following screens (such that subjects could always read it again).

The decision screen in the Baseline treatment was a German equivalent to the one pictured on the page 2 in the above mentioned online appendix of Falk and Kosfeld (2006). In Norms treatment, an additional paragraph was added at the top of the page. It was designed similar to the norms intervention in Costless and Costly experiments. Participants A (who decided about the size of the transfer), for example, received the following text:

“**Note:** Participant B has information about the efforts of 10 other Participants A from a previous experiment. But he/she is participating for the first time. Participant B sees the following table before making the decision (the decisions of other Participants A from the past experiment are displayed instead of xx).

TABLE D10

	Participant t A 1	Participant t A 2	Participant t A 3	Participant t A 4	Participant t A 5	Participant t A 6	Participant t A 7	Participant t A 8	Participant t A 9	Participant t A 10
Transfer in case of a constrain t of 10	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Transfer in case of free decision	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx