

Online Appendix

1. Analysis of Attitudinal Data

In Studies 2 and 3, immediately after participants made decisions in the repeated trust game, but before they saw the entire history, we asked participants a series of post-experiment questions to investigate three questions: how much participants trusted each other, how sensitive their decisions were to the monitoring system, and what they thought of the monitoring system.

Trust. At the end of the experiment, we asked trustors the following question, “*Knowing what you know now, how much do you trust your counterpart?*” (1: Not at all, 7: Completely). Across both studies, we found no significant differences in post experiment trust levels between the control and treatment conditions (In Study 2: $M_{\text{Control(PT)}} = 4.78$, $M_{\text{Perspective}} = 4.17$, $t(40) = 1.1$, *NS*; in Study 3: $M_{\text{Control(OB)}} = 4.15$, $M_{\text{Observing}} = 3.52$, $t(51) = 1.13$, *NS*). Overall, these findings suggest that trust was not eroded by perspective taking or by observing others’ strategic behavior.

Sensitivity to Monitoring. We asked both trustors and trustees to what extent “*I made different decisions depending upon whether or not the round was a Feedback or No Feedback round.*” (1: Strongly disagree, 7: Strong agree). Consistent with the behavior we observed in the game, across conditions trustees reported that their behavior was more heavily influenced by whether or not they anticipated feedback than trustors did. We report these results in Table 1.

Insert Table 1 about here

Perceptions of Monitoring. We also asked participants to what extent they agreed with the following statements: “*Overall, I would have preferred if more of the rounds were Feedback rounds.*”, “*I strongly disliked the Feedback rounds.*”, and “*It would have been better if all of the rounds were No Feedback rounds.*” We formed a composite measure by averaging these three evaluation measures (Cronbach’s $\alpha = 0.79$). As we expected, trustors liked feedback rounds more than trustees did, and trustees reported that they would have earned more money had there been fewer feedback rounds. We report these results in Table 1.

From these post experiment questions, we find that trustees correctly recognized that they were more strategic in their response to monitoring than trustors were. We also find that trustees liked the non-monitored rounds and disliked monitored rounds more than trustors. That is, trustees behaved strategically and recognized that they could earn greater surplus by exploiting their counterparts.

2. Experimental Instruction

GENERAL INSTRUCTIONS

This is an experiment on decision making. The instructions are simple and if you follow them carefully and make good decisions, you could earn a considerable amount of money which will be paid to you in cash before you leave today. Different subjects may earn different amounts of cash. What you earn today depends partly on your decisions, partly on the decisions of others, and partly on chance. It is important that you do not look at the decisions of others, and that you do not talk, laugh, or make noises during the experiment. You will be warned if you violate this rule. If you violate this rule twice, you will be asked to leave, and you will not be paid. That is, your earnings will be \$0.

Experimental Procedure

You will play several rounds of the same game. You will be paired with the same person for every round. The game you will play in each round is depicted in Figure 1.

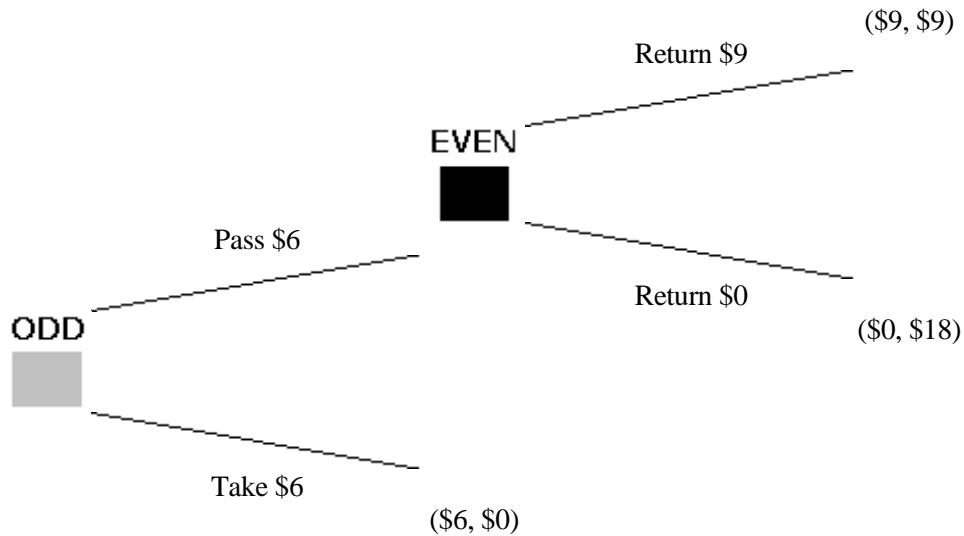


Figure 1

How Each Round Works

There are \$6 at the start of each round. The ODD player can "Take \$6" or "Pass \$6".

The ODD player can either ...

... choose "Take \$6": ODD will then earn \$6 and the EVEN player will earn \$0, and the game ends.

OR

... choose "Pass \$6": the amount of money then grows to \$18 and the EVEN player decides how much of \$18 to return.

The EVEN player can either ...

... choose to "Return \$9": ODD will then earn \$9 and EVEN earns \$9.

OR

... choose to "Return \$0": ODD will earn \$0 and EVEN earns \$18.

Note that both ODD and EVEN players will make their decisions simultaneously. That is, EVEN player will make his/her choice without knowing first what ODD has chosen. If ODD chooses "Take", ODD's decision determines the outcome of the round. If ODD chooses "Pass", EVEN's decision determines the outcome of the round. EVEN will learn what ODD chose only after both players make their decisions.

Bonus Payment

We will select one round at random and pay ODD and EVEN based upon the outcome of that round.

Feedback

Some of the rounds are FEEDBACK rounds and some of the rounds are NO FEEDBACK rounds.

- In FEEDBACK rounds, **ODD will learn what EVEN chose** immediately after both players make their decisions.
- In NO FEEDBACK rounds, **ODD will not learn what EVEN chose** until the end of the experiment.

In both FEEDBACK rounds and NO FEEDBACK rounds, **EVEN will learn what ODD chose** after both players make their decisions.

Whether a round is a FEEDBACK round is randomly determined. Both ODD and EVEN will know before they make their decisions if the round is a FEEDBACK round or NO FEEDBACK round.

Number of Rounds

You will play at least 14 rounds with your partner. After round 14, there is an 85% chance that there will be a 15th round. If there is a 15th round, there is an 85% chance that there will be a 16th round. And so on. That is, for each round after round 14, we will randomly and independently determine if there will be another round.

Table 1 Perceptions of the Monitoring System

Variable	Study	Condition	Trustor		Trustee	
			Mean	SE	Mean	SE
Sensitivity to Monitoring	Study 2	Control	4.43	(.44)	5.71	(.34)*
		Perspective Taking	3.70	(.40)	5.37	(.33)**
	Study 3	Control	3.11	(.43)	4.73	(.37)**
		Observing	4.22	(.43)	5.35	(.51)
Liking of Monitored Round	Study 2	Control	5.65	(.31)	4.56	(.26)**
		Perspective Taking	5.62	(.25)	3.83	(.28)***
	Study 3	Control	5.33	(.39)	4.60	(.31)
		Observing	5.22	(.33)	3.57	(.30)***
Earn more in Non-monitoring Round	Study 2	Control	2.61	(.27)	4.32	(.36)***
		Perspective Taking	2.65	(.25)	4.16	(.30)***
	Study 3	Control	3.23	(.32)	3.51	(.29)
		Observing	2.19	(.23)	4.30	(.28)***

*Note: Compared to trustors, trustees were more sensitive to whether or not the rounds were monitored, had greater dislike for monitored rounds, and thought they could earn more in non-monitored rounds. We reported means and standard errors (SE) separated by trustors and trustees for each condition. We conducted two tailed t-test to test differences between trustors and trustees. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.*