

# Answer booklet

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NAME

## General instructions

We will now conduct a workshop experiment. Please read the general instructions and do not open the booklet until you are instructed to do so. Once you have opened the booklet do not flip ahead, always stay on the page that coincides with the current period. The experiment consists of 3 periods.

Do not communicate during the experiment. If you have any questions raise your hand, and one of us will assist you.

Your earnings are calculated in tokens (hypothetical money). The amount of tokens you earn is determined by the choices you make throughout the experiment. At the end of the experiment there will be a random draw. If the answer booklet with your name is drawn your earnings from one of the periods will be converted into chocolate. The number of chocolate bars will be dependent on the choices you made. These are then awarded once the experiment is finalized. Note that the period that is paid out is randomly chosen by rolling a dice. If the dice is 1-2, you will receive payment for period 1, if it is 3-4 you will receive payment for period 2 and if it is 5-6 you receive payment for period 3.

***Example** Suppose the answer booklet with your name is drawn, your earnings are, say, 50 tokens from period 1, 300 tokens from period 2 and 300 tokens from period 3. If the dice is rolled, and the outcome is 3, then you receive 6 chocolate bars - that is, your earnings from period 2 are converted into chocolate.*

**500 tokens = 10 chocolate bars**

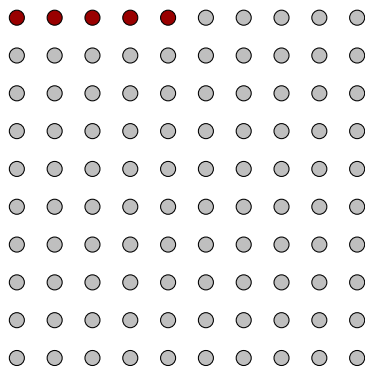
**300 tokens = 6 chocolate bars**

**50 tokens = 1 chocolate bar**

The only purpose of writing your name is to identify you if your answer booklet is drawn. The experiment is otherwise anonymous, and the data will not be used for anything other than demonstrational purposes.

# Period 1

You have 500 tokens. A ball will be drawn from the tombola. If it is red you lose 450 tokens, if it is gray nothing happens. In this period your risk of losing is 5 percent, that is, out of the hundred balls in the tombola 5 are red. You can think of this as the risk you run of having your house flooded by a storm. In this scenario, there is a 5 percent chance that you will incur such extreme weather event damages.



**Your risk of losing is 5 out of 100**

You can choose to pay an insurance premium of 200 tokens to avoid any risk of a loss. Think of this as a home insurance that covers flood damages.

If you choose *not* to pay an insurance premium your earning will depend on the risk of drawing a red ball. In 5 of every 100 cases the ball is red, you incur a loss and your earning is 50 tokens. In 95 out of 100 cases the ball is gray, nothing happens and your earning is 500 tokens.

If you *do* pay an insurance premium your earning will be 300 tokens, regardless of which ball is drawn (500 tokens - 200 tokens).

Earning <i>without</i> insurance premium	Earning <i>with</i> insurance premium
● 50 tokens	● 300 tokens
○ 500 tokens	○ 300 tokens

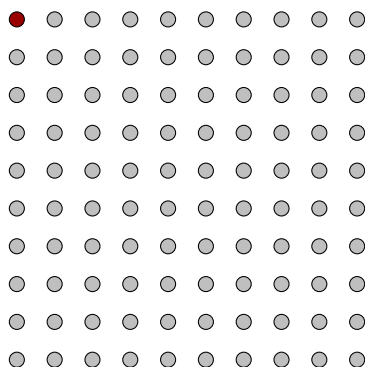
What is your choice this period? Please tick one of the boxes below.

Don't pay insurance premium

Pay insurance premium

## Period 2

Again, you have 500 tokens. A ball will be drawn from the tombola. If it is red you lose, if it is gray nothing happens. In this period your risk of losing is 1 percent, that is, out of the hundred balls in the tombola 1 is red.



**Your risk of losing is 1 out of 100**

You can choose to pay an insurance premium of 200 tokens to avoid any risk of a loss.

If you choose *not* to pay an insurance premium your earning will depend on the outcome of the tombola.

If you *do* pay an insurance premium your earning will be 300 tokens, regardless of which ball is drawn.

Earning <i>without</i> insurance premium	Earning <i>with</i> insurance premium
● 50 tokens	● 300 tokens
○ 500 tokens	○ 300 tokens

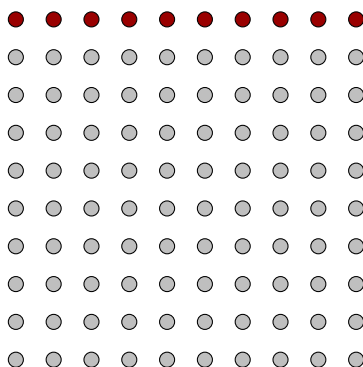
What is your choice this period? Please tick one of the boxes below.

Don't pay insurance premium

Pay insurance premium

## Period 3

Again, you have 500 tokens. A ball will be drawn from the tombola. If it is red you lose, if it is gray nothing happens. In this period your risk of losing is 10 percent, that is, out of the hundred balls in the tombola 10 are red.



**Your risk of losing is 10 out of 100**

You can choose to pay an insurance premium of 200 tokens to avoid any risk of a loss.

If you choose *not* to pay an insurance premium your earning will depend on the outcome of the tombola.

If you *do* pay an insurance premium your earning will be 300 tokens, regardless of which ball is drawn.

Earning <i>without</i> insurance premium	Earning <i>with</i> insurance premium
● 50 tokens	● 300 tokens
○ 500 tokens	○ 300 tokens

What is your choice this period? Please tick one of the boxes below.

Don't pay insurance premium

Pay insurance premium