Online Appendix to "Copy trading"

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Abstract

This online appendix contains (1) the Instructions for the experiment, (2) Table 8 with asset choices for Block1 and Block 2, and (3) Sample price paths for the 3 risky assets.

1   Experimental Instructions

Introduction

Welcome to the AWI Lab. The experiment will take about one hour, and at the end of the experiment, you will be paid in cash. The payment you receive for the experiment depends on your own decisions and on chance.

You can make all your choices at your computer. Please do not talk to other participants. If you have any questions, please raise your hand, and someone will come over. Now please read the instructions carefully. You may use paper and pencil and take notes any time.

Timing

Today's experiment is composed of three parts. Part 1 is a questionnaire on lottery choices. Part 2 consists of 2 rounds in which you will have to choose among various financial assets. Part 3 contains another questionnaire.

Payment

At the end of the experiment one of your decisions from Part 1 or 2 will be randomly selected for payment. This is done by you rolling a die. If the die shows "1" or "2", your payment depends on Part 1. If the die shows "3" or "4", the payment depends on the outcome of Part 2, round 1. Finally, if the die shows "5" or "6", the payment depends on the outcome of Part 2, round 2.

You will receive your payment in cash at the end of the experiment. Each participant will only learn his/her own payment.

Part 1

In Part 1 you have to choose one lottery among 4 lotteries. All lotteries have two possible Euro-amounts that depend on a coin flip (which will be carried out if this Part is chosen for payment). The lotteries only differ in the possible Euro-amounts associated to the heads and tails outcomes.

Lottery	Heads	Tails
1	8	7.20
2	15	6.40
3	18.60	4.00
4	20.80	0.80

For example, if you choose lottery 2 and in the end the coin you throw shows tails, then you receive 6.40 Euros if Part 1 is selected for payment.

Part 2

In Part 2 there are two rounds, which are independent of each other. At the beginning of each round you have to select one of four possible financial assets: A, B, C, or D.

The prices of the assets follow different random processes over 40 periods. All assets start with a price of 100 Taler (T).

- The price of asset A is constant at 100 T for all 40 periods.

- The price of asset B in each period moves up by 5% with probability $\frac{1}{2}$ and moves down by 4% with probability $\frac{1}{2}$.

- For asset C in each period there is a 1% chance that there is a market crash and the price of asset C moves to 50T and stays there until the end. If there is no crash, the price of asset C in each period moves up by 5.5% with probability $\frac{1}{2}$ and moves down by 3% with probability $\frac{1}{2}$.

- For asset D in each period there is a 4% chance that there is a market crash and the price of asset D moves to 50T and stays there until the end. If there is no crash, the price of asset D in each period moves up by 10% with probability $\frac{1}{2}$ and moves down by 3% with probability $\frac{1}{2}$.

Price movements in one period are independent of price movements in earlier periods.

After each period you see graphically the price path of the asset you have chosen. Then you have to decide whether you want to hold the asset until the next period or whether you want to sell it at the current price.

Before deciding which asset to choose, you have the option of simulating realizations of the different assets. Note that there are very many different realizations of the stochastic process. The computer will randomly simulate some of these. To start the simulation, you can press the button "Simulations" below the asset you want to simulate. You can press as many times as you wish, and for all the assets you want.

Your payoff is determined by the price at which you sell your asset (or, if you keep it until period 40, by the final price). At the end, each Taler is worth 0.20 Euro. In round 2 of Part 2 you have to choose again among the same 4 assets. Before you do this, you can see the results of a group of subjects who participated in an earlier experiment. They were in the same situation as you, i.e. it was the first time they played this game.[1]

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[1] These last two sentences were present only in the instructions of INFO and COPY.

You have now the option to "copy" one of the subjects on the list. When you copy a subject, the computer chooses for you the same asset and holding decisions as the chosen subject in his or her second round (recall that the results in the list are from the subjects? first round). In other words, you will get exactly the same payoff as the chosen subject in his/her second round. Alternatively, you can decide on an asset by yourself and decide on how long to hold it.[2]

Once all subjects are finished with this part, we move on to Part 3, which is a computerized questionnaire.

Part 3

This is the last part of the experiment. It consists in answering a few questions.

1. Your field of study:

   - economics

   - natural sciences

   - math

   - other

2. Your gender: male 0 female

3. If you win 100 euro with probability 1/2 and 20 euro with probability 1/2, what is the expected value of this gamble?

4. "When I buy a new smartphone (or laptop), I usually just pick from the one's that were recommended to me by friends." I agree with this statement, on a scale from 0 to 5, at ...

5. "When I buy a new smartphone (or laptop), I usually read all test reports and then decide for the best one even if none of my friends has such a phone." I agree with this statement, on a scale from 0 to 5, at ...

6. How do you see yourself: Are you generally a person who is going his own way?

7. How do you see yourself: Are you generally a person who follows the lead of others?

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[2]This paragraph was only in the instructions for treatment COPY.

2 Asset choices in Blocks 1 and 2

Table 8: Distribution of asset choices in Blocks 1 and 2

BASELINE					
	Block 2 Assets				
Block 1 Assets	*A*	*B*	*C*	*D*	Total
A	0	0	1	0	1
B	2	20	9	8	39
C	0	8	10	10	28
D	0	2	2	8	12
Total	2	30	22	26	80
INFO					
	Block 2 Assets				
Block 1 Assets	*A*	*B*	*C*	*D*	Total
A	0	0	2	2	4
B	0	6	7	9	22
C	1	0	5	5	11
D	0	1	3	7	11
Total	1	7	17	23	48
COPY					
	Block 2 Assets				
Block 1 Assets	*A*	*B*	*C*	*D*	Total
A	1	0	0	0	1
B	0	5	2	4	11
C	0	0	4	5	9
D	0	2	1	7	10
Total	1	7	7	16	31

Note: The data for COPY refers to the decisions of the non-copiers.

3 Sample Price Paths

The following graphs contain 18 simulated price paths for the 3 risky assets used in the experiment.
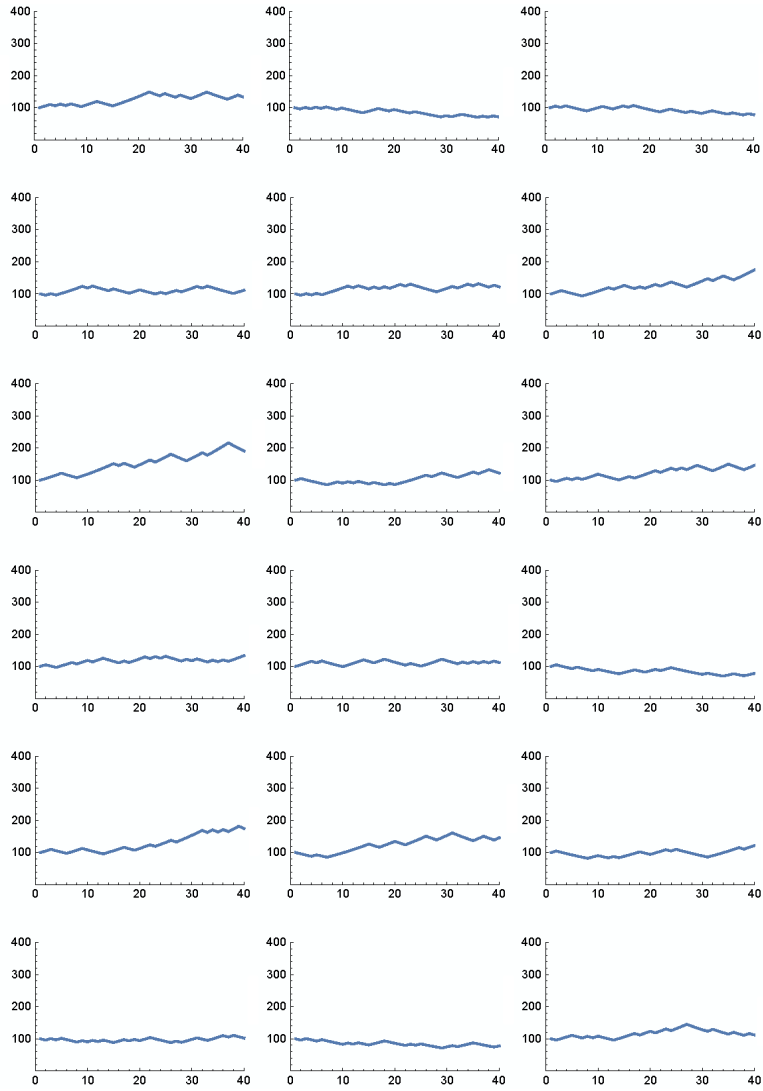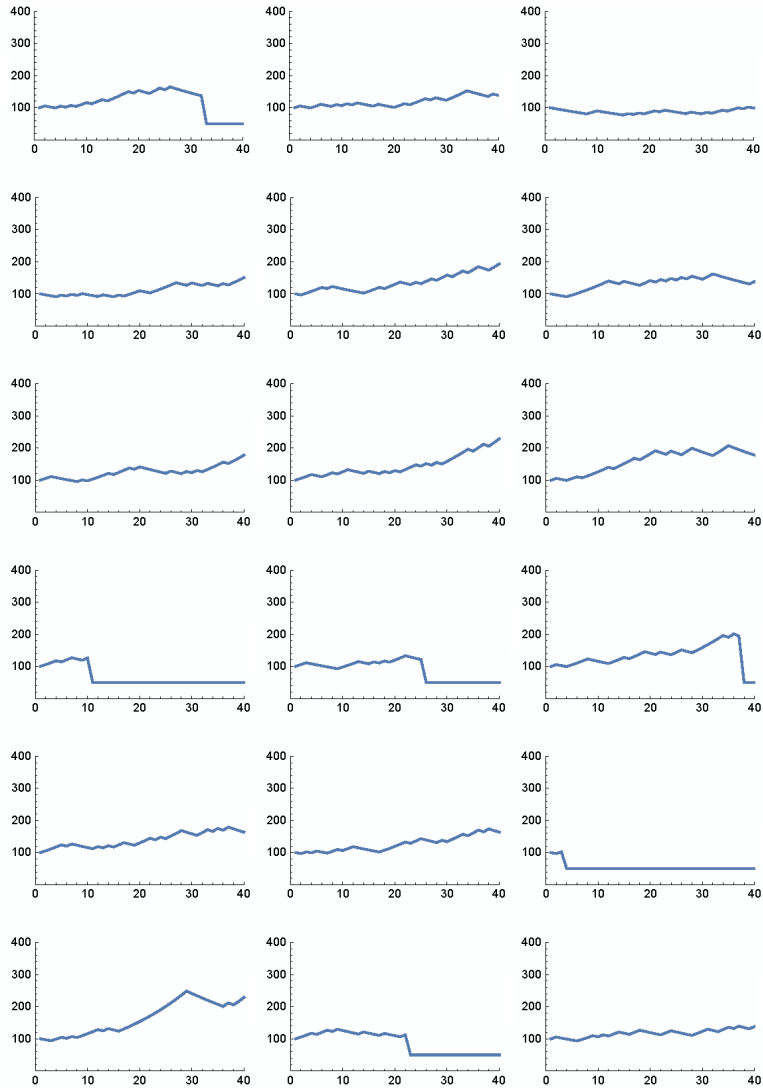
Figure 1: Sample price paths for Asset B.
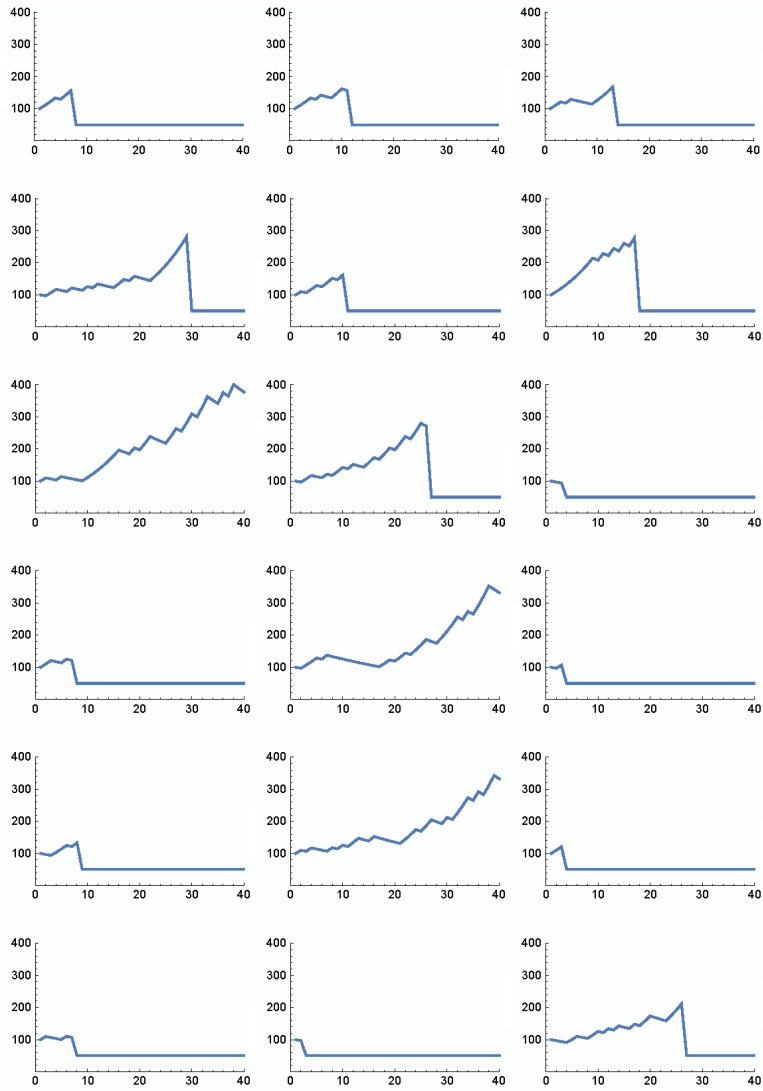
Figure 2: Sample price paths for Asset C.

Figure 3: Sample price paths for Asset D. Note that only 3 out of 18 paths do not crash, which is roughly in line with the expected probability of 0.195.