

Task Instructions & Compensation:

For the duration of this experiment, assume you are a division manager in a firm that manufactures a variety of products. In addition to your division, your firm has a second division that is the same size as yours and is managed by your other group member in this experiment. As division manager, your responsibilities involve making decisions about which projects to implement in your division and how to manage your division's production processes.

In your first task, you will decide which of two projects to implement in your division for an upcoming production period. The two projects may differ in the possible net income (revenue minus expenses) they can generate for your division, as well as in their likelihood of achieving each possible project outcome. An example of the information you will view for each project is shown below:

Project A:		Project B:	
Project Net Income	Likelihood	Project Net Income	Likelihood
60	60%	50	80%
85	40%	150	20%

Possible net income (revenue – expenses) generated by the project.

Likelihood of the project generating the corresponding net income. For example, this project has a 60% chance of generating net income of 60, and a 40% chance of generating net income of 85, based on a random draw.

After choosing a project to implement for the period, the outcome of the project will be determined by a random computer-generated draw based on the likelihoods of each project outcome. You will then learn your division's results for the period, as well as the other division's results. These results will illustrate each division's project outcome, as well as each division's overall profitability for the period. You and your other group member will repeat this decision for your respective divisions for several periods.

The firm's common support costs are allocated (or divided up) between divisions. [Non-Insulating] Your firm has decided to allocate these costs, which total 100 (m) each period, to each of the two divisions based on the portion of firm net income generated by the division for the period. For example, suppose your division's project generates net income of 60 and the other division's project generates net income of 90. Total firm net income from projects for the period would be $(60 + 90 =) 150$, of which your division generated 40% $(60 / 150)$. Your division would be allocated 40% of the common costs of 100, or 40, while the other division would be allocated 60% of the common costs, or 60. Thus, the costs you are allocated depend on both the net income generated in your division and the net income generated in your group member's division.

Your division's overall profitability will then be calculated as:

Net income from the project you select
 - Allocated common costs
 = Division Profit

Your compensation for this task will be determined based on your division's profit in a randomly-selected period. Your division's profit will be converted to dollars (\$) for this payment using the following schedule:

Division Profit	Bonus
0-9	\$0
10-19	\$0.50
20-29	\$1.00
30-39	\$1.50
40-49	\$2.00
50-59	\$2.50
60-69	\$3.00
70-79	\$3.50
80-89	\$4.00
90-99	\$4.50
100-109	\$5.00
...for each additional 10	+ \$0.50

For illustrative purposes, consider the following compensation examples:

1. A project chosen for implementation by a participant in the randomly-selected compensation period generates net income of 90. A project chosen by the participant's other group member in the same period generates net income of 60. Compensation is then determined in the following way:

Total firm net income from projects = $90 + 60 = 150$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	60% ($90 / 150$)	40% ($60 / 150$)
Division Profitability:		
Net income from project	90	60
- Allocated common costs	60 ($60\% \times 100$)	40 ($40\% \times 100$)
= Profit	30	20

The participant's compensation for this task would be (per the schedule above): \$1.50.
 The participant's other group member's compensation for this task would be: \$1.00.

2. A project chosen for implementation by a participant in the randomly-selected compensation period generates net income of 50. A project chosen by the participant's other group member in the same period generates net income of 50. Compensation is then determined in the following way:

Total firm net income from projects = $50 + 50 = 100$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	50% ($50 / 100$)	50% ($50 / 100$)
Division Profitability:		
Net income from project	50	50
- Allocated common costs	50 ($50\% \times 100$)	50 ($50\% \times 100$)
= Profit	0	0

The participant's compensation for this task would be (per the schedule above): \$0.00.
The participant's other group member's compensation for this task would be: \$0.00.

3. A project chosen for implementation by a participant in the randomly-selected compensation period generates net income of 150. A project chosen by the participant's other group member in the same period generates net income of 65. Compensation is then determined in the following way:

Total firm net income from projects = $150 + 65 = 215$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	70% ($150 / 215$)	30% ($65 / 215$)
Division Profitability:		
Net income from project	150	65
- Allocated common costs	70 ($70\% \times 100$)	30 ($30\% \times 100$)
= Profit	80	35

The participant's compensation for this task would be (per the schedule above): \$4.00.
The participant's other group member's compensation for this task would be: \$1.50.

Your total compensation for the experiment will include the compensation from this task, as well as compensation from the second task you will complete, and your \$2.00 participation fee.