

Appendix to paper:
Tax Evasion and Income Source: A Comparative Experimental Study
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English version of the Albanian and Dutch instructions used in the experiments¹

Instructions Part I

Introduction

Welcome to this experiment. Here you can earn money. The amount of money you earn will depend on your own decisions, on the decisions of other participants and on the outcome of a random event. The money will be paid to you personally and privately from the other participants. Your decisions are anonymous. They are not related to your name. In addition, there are no ‘good’ or ‘bad’ decisions in the experiment. This is not a test. We only want to study the decisions people make.

The currency we are going to operate with during the experiment is called experimental francs. When the experiment is finished, the amount in francs will be converted to guilders by dividing the total earnings by 50.² Therefore, you can always calculate your earnings in guilders by dividing the amount in francs by 50.

The structure of the experiment

The 12 participants in this experiment are divided into 3 groups of 4. We will call them group 1, group 2 and group 3. The experiment consists of 8 rounds. You will stay in the same group in all rounds, but you will not know who else is in your group. Soon, we will let you know what group you are in, but this is not so important with respect to the decisions.

The decision made in each round is independent of the decisions made in other rounds. After the third round, we will change something in the decision making process. The exact information about this change will be explained to you when that moment comes.

The decision

In every round, you have to choose an envelope. There are two types of envelopes. We call them X-envelopes and Y-envelopes. There are six envelopes of each type. We will soon come by every desk one by one. Then you will have to inform us whether you want an X-envelope or a Y-envelope. We will take the six envelopes of the type you chose and you may pick one of the six. You will find an amount of money written inside the envelope. For the first three rounds, this amount represents your earnings per round.

Of course, you do not know beforehand the amount you will get. However, we will now tell you the amounts written in the envelopes.

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There are six different amounts in the X-envelopes. They are:
100 francs

¹ This is the basic outline of all instructions used in the experiment. Other instructions, based on the various treatments described in the main text, are available upon request.
² In Albania, it is converted to Leks by dividing the total earnings by 3.

300 francs
400 francs
500 francs
600 francs
700 francs

Hence, if you choose an X-envelope, you will get one of these amounts in that round.

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In the Y-envelopes, there are also six different amounts. They are:

0 francs
100 francs
300 francs
500 francs
700 francs
800 francs

Hence, if you choose a Y-envelope, you will get one of these amounts in that round.

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Presenting your decision

You are not allowed to talk during the experiment. For this reason you will inform us about your decision in writing. For this purpose, we have prepared a table, which will be distributed now.

participant: __

group _

	Choice X or Y
Round 1	X Y
Round 2	X Y
Round 3	X Y

The procedure is easy for rounds 1, 2 and 3. When round 1 begins, we will ask you to circle a X or a Y. If you want an X-envelope, you should circle 'X', and if you want a Y-envelope, you should circle 'Y'. When we come along, we will see what you have chosen. Then, we will let you choose from the six envelopes of that type. You can pick one of the envelopes. You may see for yourself how much you have earned. We do not need to know at that stage. You simply keep the envelope. When the experiment is finished, you take the envelope with you for the payment procedure. We will then give you the amount of money written inside the envelope in cash.

Now you will have a few of minutes to read these instructions again. If you have any questions, raise your hand, and one of us will come to you to answer that question. If you are finished, please remain quiet until we start the experiment.

Instructions Part II

The fund

We will add something for the following rounds. Again, you have to choose an X- or a Y-envelope, which determines your earnings. Now, everybody must contribute part of her/his earnings to a fund. To be more precise, everybody should contribute 25% or a quarter of her/his earnings.

The money collected from a group (there are three groups in total) will then be distributed to all participants of the group. Hence, if one group contributes a total of 500 francs to the fund in a round, everybody of that group will receive 125 francs from the fund. This is independent of the amount contributed by each member of the group individually.

Reporting your earnings

Because we cannot see how much you earn per round (you pick an envelope and open it yourself), you must report your earning to us in each round. The amount reported will determine your contribution. It is up to you to report the actual amount of your earning or some other amount.

The audit

There is a probability that we will audit your reported income. If you have chosen an X-envelope, we will always audit whether you reported the correct amount. We will do this by looking inside your envelope. If you have picked a Y-envelope, we will throw a die to decide whether or not we will audit. If the die shows a 1 (one), 2 (two) or 3 (three), we will audit the amount reported. Otherwise, we will not. Hence, in the case of a Y-envelope, there is a probability of 1/2 that the reported amount will be audited. In the case of an X-envelope, the report will always be audited.

There are two possibilities if we audit your reported amount.

- If the amount written inside the envelope is the same as the amount reported, we will write it down and you will contribute 25% of that amount to the fund.
- If the amount is not the same, we will write down your actual earnings. You will have to pay 25% of these earnings to the fund. In addition, you have to pay 25% of your actual earnings as a fine for declaring less. If you have reported more than your actual earnings, you do not have to pay a fine. Collected fines are not deposited in the fund.

Again: if we do not audit your reported earnings, your contribution will be 25% of these reported earnings. The actual earnings, that will be paid to you at the end, will be determined by the actual amount in the envelope. You have to take this envelope with you when you go to be paid at the end of the experiment. If we do not audit you, we do not know during the experiment whether or not you have reported the correct amount.

Your final earnings

Your final earnings from round 4 to round 8 will be calculated when you come one by one at the end of the experiment and receive the money you have earned today.

- (1) We determine the actual earnings (in francs) by adding up the amounts in your envelopes.
- (2) Then, we count the amount that your group deposited in the fund for the five rounds altogether. This total amount will be divided by 4 (the number of group members) and the result (in francs) will be added to your earnings.
- (3) Further, we determine the total amount that you contributed to the fund. This amount will be subtracted from your earnings.
- (4) At the end, we determine whether you have to pay fines or not, and if yes, how much. This amount will also be subtracted from your earnings.
- (5) In this way, we know your total earnings in francs. These will be divided by 50 in order to determine your earnings in guilders. This is the amount you will receive from us.

Registration

We want your decisions to remain anonymous. This is the reason why the procedure is made such that the other participants cannot see from our behavior what you have chosen. Therefore, the procedure during rounds 4-8 is as follows.

First, we come along to give you a chance to choose an envelope. This is done in the same way as in the first three rounds. Then, you will have a chance to declare your earnings in the space provided in the table that will now be distributed.

