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Comments

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Abstract

Costless pre-play communication has been shown to effectively facilitate within-group coordination. However, in competitive coordination games, such as rent-seeking contests, better within-group coordination leads to more aggressive competition and lower efficiency. We report an experiment in which two groups compete in a weakest-link contest by expending costly efforts. We find that allowing within-group communication makes groups compete more aggressively. When only one group can communicate, the communicating group coordinates better and expends higher efforts than the non-communicating group. However, the communicating group earns payoffs that are not different from the baseline contest without any communication, while the non-communicating group earns lower payoffs than in this baseline contest. Allowing within-group communication in both groups leads to even more aggressive competition and the lowest payoffs to both groups. Despite such a "harmful" effect of communication, groups vote to endogenously open communication channels even though this leads to lower payoffs and efficiency.

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1. Introduction

Many experimental studies have shown that cheap talk can facilitate coordination on the efficient equilibrium in experimental games with Pareto-ranked equilibria (Cooper et al., 1992; Charness, 2000; Charness and Grosskopf, 2004; Duffy and Feltovich, 2002, 2006). For example, Van Huyck et al. (1993) demonstrate that pre-play communication is efficiency-enhancing in coordination games. Blume and Ortmann (2007) find that costless nonbinding messages, even when they have minimal information content, can facilitate quick convergence to the Pareto-efficient equilibrium. Since many economic interactions can be modeled as coordination games, this finding may have a very important general implication: improving communication in coordination games can increase efficiency and social welfare. However, this conclusion is misleading. Indeed, Cason et al. (2012) show that allowing within-group communication in competitive coordination games, such as rent-seeking contests, may lead to more aggressive competition between groups and lower efficiency. Therefore, introduction of within-group communication in such environments may actually cause inefficiency and decrease social welfare.

This study further explores potentially harmful effects of communication in competitive coordination games, by addressing two questions. The first question concerns with the effects of asymmetric communication: If only one of the two competing groups can communicate, is such asymmetric communication harmful? The second question concerns with the endogenous emergence of communication: Given that communication may potentially harm efficiency, do groups still choose to establish the "harmful" communication channel? To answer these questions, we employ a weakest-link contest between two groups.

The weakest-link contest combines features of a cooperative weakest-link game (Van Huyck et al., 1990) and a competitive rent-seeking contest (Tullock, 1980). One key characteristic of this type of contest is that coordination on higher efforts increases the probability of winning the prize, thus receiving potentially higher payoffs. Efforts are aggregated within each group with a weakest-link production technology, so the effective group effort equals the lowest effort expended by an individual in the group. The weakest-link feature of this contest resembles many real life competitions where the performance of the entire group depends on the worst performer within a group (Hirshleifer, 1983). For example, in many teamwork competitions each member of the team is responsible for a specific task. If any of the members performs their task poorly then the team loses the competition. Certain R&D competitions have such characteristics. In many sports, such as football and basketball, the weakest player on the team is likely to be a point of attack by the opponents. Also, in terrorist attacks and in some military battles, the attacker's objective is often to successfully attack one target, rather than a subset of targets (Clark and Konrad, 2007; Deck and Sheremeta, 2012).

Another key feature of the weakest-link contest is that, although coordination on higher efforts increases the probability of winning the prize, it also decreases the competitors' payoffs. Therefore, higher efforts in this type of competition between groups may lead to lower efficiency due to the negative externality imposed on the competing group. This unique feature of the group contest has been used by researchers to examine questions about punishment and retaliation (Abbink et al., 2010), rent-seeking (Ahn et al., 2011), group structure (Sheremeta, 2011), and leadership (Eisenkopf, 2014).[1] Previous studies have shown that when there is no within-group communication, group members are able to achieve a substantial level of coordination within

[1] For a comprehensive review of these studies see Dechenaux et al. (2015). Most contest studies find that subjects behave more aggressively than predicted and their behavior is heterogeneous (Sheremeta, 2013).

each group (Sutter and Strassmair, 2009; Cason et al., 2012; Leibbrandt and Sääksvuori, 2012). Allowing within-group communication leads to even better coordination, but as a result of more aggressive competition it also leads to lower efficiency (Cason et al., 2012; Leibbrandt and Sääksvuori, 2012).[2]

Our experiment employs a weakest-link contest to further explore the potentially harmful effects of communication in competitive coordination games. Regarding to the first question of asymmetric communication, we find that when only one group can communicate, the communicating group coordinates better and expends higher efforts than the non-communicating group. As a result, the communicating group earns similar payoffs than the group in the baseline contest without any communication, while the non-communicating group earns lower payoff than the group in this baseline contest. Allowing within-group communication in both groups leads to even more aggressive competition and the lowest average payoffs to both groups. Therefore, it appears that although asymmetric within-group communication is not as harmful as symmetric communication, it leads to more aggressive competition and lower efficiency relative to the case when no groups can communicate. We use content analysis to analyze why communication is harmful and find that subjects often send messages expressing their desire to compete and win (significantly more so than messages about cooperation) and messages expressing verbal bullying and punishment. Moreover, such messages are positively and significantly correlated with effort expenditures in the contest. These types of communication patterns partially explain overly aggressive competition in the presence of communication.

Regarding to the second question of endogenous emergence of communication, we find that groups endogenously choose to establish communication channels. Moreover, as in the

[2] Although Sutter and Strassmair (2009) also document that communication within groups increases individual efforts, such efforts lead to higher payoffs and higher efficiency due to their design.

exogenous case, endogenously selected communication enhances coordination, but it also leads to more aggressive competition and lower efficiency. Therefore, we find that although communication harms efficiency, groups still choose to communicate. We provide several explanations, suggesting that people naturally have preferences for communication and they do not realize that communication may actually harm their monetary payoffs. Also, we find evidence that subjects frequently talk about winning, which suggests that some may choose to communicate in order to increase their non-monetary utility of winning. Finally, we hypothesize that choosing to communicate may be rational if subjects' objective is to maximize their own payoff relative to the opponents' group payoff or if they want to strengthen their group identity.

2. Theory and Predictions

2.1. Theoretical Model

Consider a contest between two groups A and B. Each group consists of N risk-neutral players. Neither players in group A nor players in group B can communicate. This corresponds to our baseline NC-NC treatment in which "no communication" is allowed. All players within each group simultaneously and independently expend irreversible and costly individual efforts x_{iA} and x_{iB}. Players within the winning group each receive the valuation of a prize v. Players within the losing group receive no prize. The total effective effort of each group depends on the lowest effort chosen by a member within the group – the so-called weakest-link. Group efforts determine winning probabilities using the Tullock (1980) lottery contest success function. Therefore, the probability of group A (similarly group B) winning the prize is defined as:

$$p_A(x_{iA}, x_{-iA}) = \frac{\min\{x_{1A},\dots,x_{NA}\}}{\min\{x_{1A},\dots,x_{NA}\} + \min\{x_{1B},\dots,x_{NB}\}} \tag{1}$$

That is, each group's probability of winning depends on the lowest effort within that group relative to the sum of the lowest efforts by both groups (groups win with equal probability if they both have a lowest effort equal to 0). The expected payoff for player i in group A (similarly group B) can be written as:

$$\pi_{iA}(x_{iA}, x_{-iA}) = p_A(x_{iA}, x_{-iA})v - x_{iA}. \quad (2)$$

Maximizing (2) with respect to x_{iA} and solving the (symmetric) best response functions simultaneously gives the theoretical predictions for this contest. Since this game is a coordination game, there exist multiple pure-strategy Nash equilibria in which the players within the same group match their efforts at the same level while best responding to the effort of the other group (Sheremeta, 2011; Cason et al., 2012; Lee, 2012). In particular, in any equilibrium, all players in each group best respond to the effort of the other group according to the following best-response functions (correspondences): $x_A \leq \sqrt{x_B v} - x_B$ and $x_B \leq \sqrt{x_A v} - x_A$. These best-response functions are shown in Figure 1. Moreover, because of the weakest-link technology for aggregating individual efforts, in equilibrium all players in each group must match their effort levels, i.e. $x_{iA} = x_A$ for all i and $x_{jB} = x_B$ for all j. The full set of pure strategy Nash equilibria are illustrated by the intersection of two best-response functions and are shown in Figure 1. Two specific equilibria of interest are the group *Pareto dominant* equilibrium and the *Pareto efficient* equilibrium. The group Pareto dominant equilibrium may be focal because the players within a group have incentives to coordinate with each other to increase their effort levels at any other equilibrium within the shaded area. At the group Pareto dominant equilibrium all players expend efforts of $v/4$ and no group has any incentive to deviate. On the other hand, the Pareto efficient equilibrium is when all players expend 0. In this equilibrium there is no dead weight loss from competition and each group is equally likely to win the contest. Note that any symmetric or asymmetric equilibrium within the shaded area in Figure 1 is more efficient than the group Pareto dominant equilibrium and less efficient than the Pareto efficient equilibrium.

Next, consider a contest in which players within group A and players within group B can communicate. This corresponds to the C-C treatment in the experiment. The results in the existing literature suggest that the communicating group usually acts cooperatively as one player (Sutter and Strassmair, 2009; Zhang, 2009; Cason et al, 2012).[3] In such a case, the objective function of group A (similarly group B) can be written as:

$$\pi_A^c(x_A, x_{-A}) = p_A(x_A, x_{-A})v - x_A \quad (3)$$

Therefore, the contest between two groups reduces effectively to a contest between two unitary players, with the objective functions of groups *A* and *B* given by (3). Maximizing (3) with respect to x_A, we find that group *A* best responds to the effort of group *B* according to the following best-response functions: $x_A = \sqrt{x_B v} - x_B$. Similarly, for group *B* the best response function is $x_B = \sqrt{x_A v} - x_A$. These best-response functions are shown in Figure 2. Assuming that all players within each group act cooperatively as one player and solving the best response functions simultaneously gives us a unique Nash equilibrium where all players in each group match their efforts at the same level, i.e. $x_{iA} = x_A = x_{jB} = x_B = v/4$ for all i and j. This Nash equilibrium is illustrated by the intersection of two best-response functions in Figure 2. Note that this is exactly the same as the group *Pareto dominant* equilibrium in the case when neither groups *A* or *B* can communicate (see Figure 1), and is also the standard equilibrium in the two-player Tullock contest.[4]

[3] One of the reasons why communication is such a powerful coordination device is that it creates group identity (Sutter, 2009; Cason et al, 2012). Chen and Li (2009) provide an excellent literature review on group identity.
[4] The group Pareto dominant equilibrium is also a coalition-proof Nash equilibrium (Bernheim et al., 1987).

Finally, consider a contest in which players within group A can communicate, while players in group B cannot. This corresponds to the C-NC treatment in which "communication" is allowed in one group but "no communication" is allowed in the other group. In this case it is plausible that the communicating group A acts as one player trying to maximize the objective function (3), while all players in the non-communicating group B maximize the objective function (2). Obviously, in any equilibria $x_{iA} = x_A$ for all i and $x_{jB} = x_B$ for all j. If communication resolves coordination problem in group A, group A will respond to the effort of group B according to the best-response function $x_A = \sqrt{x_B v} - x_B$ (this is exactly the same best-response function as in a standard two-player Tullock contest). On the other hand, due to possible miscoordination, players in group B have a less precise best-response to the effort of group A, i.e. $x_B \leq \sqrt{x_A v} - x_A$. The intersection of these best response functions provides the set of possible Nash equilibria as in Figure 3. Note that the set of Nash equilibria corresponds to the upward sloping part of the best response function of group A.

2.2. Predictions

This simple theoretical model and resulting equilibria imply several testable hypotheses regarding the impact of asymmetric communication. The theoretical prediction for the C-NC treatment is that players in the non-communicating group should choose identical effort level between 0 and $v/4$, and players within the communicating group should jointly maximize their payoffs in response to the behavior of the non-communicating group. As demonstrated in Figure 3, such best-response dictates higher effort level than the non-communicating group, although the range of possible efforts is still between 0 and $v/4$. Therefore, regarding the effects of asymmetric communication, we should expect the following:

Hypothesis 1: In the C-NC treatment, efforts of the communicating group are no smaller than efforts of the non-communicating group.

The theoretical prediction for the NC-NC treatment is that all players within each group should coordinate on the same effort level, but this level can vary across groups and there is no strong reason to expect a particular equilibrium effort level between 0 and $v/4$. Therefore, when comparing behavior in the C-NC treatment to the NC-NC treatment, we should expect the following:

Hypothesis 2: Efforts of the non-communicating group in the C-NC treatment are similar to efforts of the non-communicating group in the NC-NC treatment.

The theoretical prediction for the C-C treatment is that all players within each group should choose efforts equal to the group Pareto dominant equilibrium of $v/4$. Note that because the equilibrium prediction for the communicating group in the C-NC treatment lies in the range between 0 and $v/4$, this group should expend effort no greater than the communicating group in the C-C treatment. Therefore, when comparing behavior in the C-NC treatment to the C-C treatment, we should expect the following:

Hypothesis 3: Efforts of the communicating group in the C-NC treatment are no greater than efforts of the communicating group in the C-C treatment.

To summarize, we should observe the lowest aggregate effort in the NC-NC treatment, followed by the C-NC treatment, and then by the C-C treatment. Since lower efforts imply higher payoffs (due to the embedded contest structure), we should expect payoffs to be the highest in the NC-NC treatment, followed by the C-NC treatment, and then by the C-C treatment. Since efficiency is directly related to payoffs, we should expect the same ranking for efficiency. This gives our final hypotheses regarding the impact of asymmetric communication:

Hypothesis 4: Payoffs and efficiency are the highest in the NC-NC treatment, followed by the C-NC treatment, and then by the C-C treatment.

3. Experimental Design and Procedures

Our principal research questions are about the impact of asymmetric and endogenous communication on competition between teams. To study these questions, we employed four treatments as summarized in Table 1: NC-NC, C-C, C-NC, and Endogenous. All treatments employed N = 3 players in each group and all players within the winning group received the prize of v = 60 experimental francs. Subjects were placed into group A or B at the beginning of the first period, and they stayed in the same group for the duration of the experiment. They also competed against the same opposing group for all 30 periods of their experimental session. We chose this fixed matching protocol to allow subjects an opportunity to coordinate with each other on one of the many different equilibria. Also, because of the fixed matching protocol we obtained a sufficient number of statistically independent observations to perform reasonably powerful non-parametric tests.[5]

At the beginning of each period, each subject received 60 experimental francs as an endowment (equivalent to $2.00). Effort choices were framed in the instructions using the standard labels used in voluntary contribution mechanism public good provision experiments: they could allocate to a "group account" or an "individual account." The instructions informed subjects that by allocating 1 franc to their individual account they would earn 1 franc, while by

[5] Subjects were informed that the session would last for exactly 30 periods, so the stage equilibrium prediction also holds for this finitely repeated game. As noted above, we conjectured that groups or individuals might coordinate on Pareto-improving outcomes in the repeated game, since this is frequently observed in the experimental literature even in finitely-repeated games with a unique equilibrium (e.g., Selten and Stoecker, 1986).

allocating 1 franc to their group account they could increase the chance of their group receiving the reward. Subjects could contribute any integer number of francs between 0 and 60.

The baseline treatment NC-NC implements a contest without communication. In treatments with communication, before subjects made their allocation decision they had an opportunity to communicate with other participants via chat windows. In the C-NC treatment, subjects in one group could send messages to the two other members of their own group anonymously via this chat window for 60 seconds each period. In the C-C treatment, separate chat windows were enabled for both groups. For all chat communications we asked subjects to follow two basic rules: (i) to be civil to one another and not to use profanity, and (ii) not to identify themselves in any manner. Messages were recorded. After the chat period was over, all subjects simultaneously made their effort (allocation) decisions, and then a random draw determined the winning group. A simple lottery was used to explain how the computer chose the winning group.[6] At the end of each period subjects were informed of group *A*'s and *B*'s effective efforts (i.e., the minimum effort in each group).

Note, in the above three treatments, we exogenously vary the communication channel to measure the causal effect of symmetric and asymmetric communication in the competitive coordination game. To further explore whether these effects persist when groups can endogenously choose to enable or disable communication, we implement an endogenous communication treatment as follows. All subjects began with 10 periods of the NC-NC treatment to become familiar with the strategic properties of the game. Then three players in each group voted (before period 11 and before period 21) whether to establish communication for 10

[6] Probabilities were explained in the instructions as a number of tokens placed in a bingo cage based on effort choices, and then one token draw determined the winning individual or group.

periods.[7] Unanimity was required to establish communication channel. After the voting stage, the computer revealed whether each group elected to communicate during the competition stage. Therefore, effectively groups could endogenously choose to participate in the NC-NC, C-C, or C-NC treatment.[8] We considered alternative ways of implementing endogenous communication, such as including explicit costs of opening chat rooms or more frequent votes to open or close communication opportunities. We chose this 10-period time frame for stationary communication subgames to strengthen the importance of the communication votes and to reduce potential spillovers across periods arising from group planning in communication periods for strategies in non-communication periods (Isaac and Walker, 1991).

The experiment was conducted at the Vernon Smith Experimental Economics Laboratory. A total of 216 subjects participated in 18 sessions. Subjects were Purdue University undergraduate students who participated in only one session of this study. Some students had participated in other economics experiments that were unrelated to this research. Data from the 96 subjects in the NC-NC and C-C treatments were previously reported in Cason et al. (2012) as the "NOCOMM" and "INTRA" treatments. Results from the additional 120 subjects in the asymmetric and endogenous communication treatments are newly reported in this study.

The computerized experimental sessions were run using z-Tree (Fischbacher, 2007). At the beginning of each session subjects were given the written instructions, shown in Appendix A,

[7] Another option was to allow subjects to vote every round to decide whether they want to communicate or not. However, it would substantially delay the experiment (by about an hour) and it would also create incentives for subjects to avoid lengthy communications. Another concern is that after subjects choose to communicate after period 10 (i.e., they end up in the C-NC or C-C treatment), they can devise a future strategy in case when such communication is not available. However, reading through chats we did not find this to be the case.

[8] As we expect that people have a natural tendency to communicate, we adopted a very strict voting rule – groups must reach a unanimous decision in a single vote to open the communication channel to increase the occurrence of the endogenous C-NC treatment. It turned out that among the 72 subjects, only 7 subjects voted against communication in the first voting round and they belonged to 7 different groups. Thus if we had used a majority rule, we would only observe the endogenous C-C treatment. The second vote before period 21 gives groups another chance to decide whether they want to communicate. It could provide perhaps the clearest evidence of the desirability of communication if groups switched from communication to no-communication.

and the experimenter also read the instructions aloud. At the end of the session, 5 out of 30 randomly-drawn periods were selected for payment. Earnings were converted from experimental francs into US dollars at a preannounced exchange rate. Subjects earned about $21 on average and sessions lasted about 60 to 90 minutes.

4. Experimental Results

4.1. Exogenous Communication

The first part of Table 2 summarizes the average group effective (minimum) effort, individual effort, wasted effort, and payoffs in the three exogenous treatments. Figure 4 displays the effective group effort over time by treatment. In the NC-NC treatment, average individual effort should be between 0 and 15. The actual average effort is 11.18, indicating that subjects learn to coordinate their efforts on substantial level. When within-group communication is allowed in both groups, as in the C-C treatment, the average individual effort is 20.13. Both the average and minimum (group effective) efforts are significantly higher in the C-C treatment than in the NC-NC treatment (Mann-Whitney test, p-value<0.05, n=m=8).[9] Also, we find that the amount of wasted effort is significantly lower in the C-C treatment than in the NC-NC treatment (Mann-Whitney test, p-value<0.05; n=m=8).[10] Most importantly, because of the greater efforts in the C-C treatment, the average payoff in the C-C treatment is significantly lower than the payoff in the NC-NC treatment (Mann-Whitney test, p-value<0.05, n=m=8). These results have been previously reported in Cason et al. (2012) and they serve as a baseline for examining how asymmetric communication impacts behavior in competitive coordination games.

[9] All non-parametric tests employ only the independent observations of six subjects. Similar results hold when considering only the later 20 periods.

[10] Wasted effort is calculated by taking the average of the differences between individual effort and the group minimum effort within each group (Riechmann and Weimann, 2008). Complete coordination is reached when wasted effort equals zero.

In the novel C-NC treatment, within-group communication was allowed only in one group. Our hypothesis is that because of communication efforts of the communicating group should be no lower than efforts of the non-communicating group. Table 2 shows that in the communicating group the actual average individual effort is 13.99 and the average group effective (minimum) effort is 13.56. In the non-communicating group the average individual effort is 11.30 and effective effort is 8.85. Consistent with Hypothesis 1, both effort measures are significantly different between the communicating and non-communicating groups (Wilcoxon signed-rank test, p-value=0.02, n=8). Also, relative to the non-communicating group, the communicating group in the C-NC treatment achieves significantly better coordination (the mean wasted effort is 0.43 versus 2.45; Wilcoxon signed-rank test, p-value<0.01, n=8).[11] The communicating group attributed their superior ability to coordinate and make higher efforts to their chats. In their own words, "i bet we'd be dumb like them if we couldn't talk"; "we r dominating. still do 5 cuz they're not changing"; "team work is good".

Result 1: In the C-NC treatment, the communicating group expends higher effort and achieves better coordination than the non-communicating group.

Comparing treatments NC-NC and C-NC, the non-communicating groups in both treatments behave very similarly. In particular, in the NC-NC treatment, the average individual effort is 11.18, the minimum effort is 8.29, and the wasted effort is 2.89. Similarly, in the C-NC treatment, the average individual effort of the non-communicating group is 11.30, the minimum effort is 8.85, and the wasted effort is 2.45. For each of these measures, the differences are not significant between the two treatments, providing support for Hypothesis 2.

Result 2: The non-communicating group in the C-NC treatment expends similar effort and archives similar coordination than the non-communicating group in the NC-NC treatment.

[11] As with other results summarized here, conclusions are unchanged if only later periods are analyzed.

Comparing treatments C-NC and C-C, the communicating group in the C-NC treatment expends significantly lower effective effort than the communicating group in the C-C treatment (13.56 versus 18.86; Mann-Whitney test, p-value=0.02, n=m=8). This finding is consistent with Hypothesis 3. Interestingly, we also find that the communicating group in the C-NC treatment achieves better coordination than the communicating group in the C-C treatment (the mean wasted effort is 0.43 versus 1.27; Mann-Whitney test, p-value=0.01, n=m=8).

Result 3: The communicating group in the C-NC treatment expends lower effort and achieves better coordination than the communicating group in the C-C treatment.

Our final hypothesis concerns how asymmetric communication impacts payoffs. Previous studies have shown that allowing within-group communication leads to better coordination, but as a result it can also lead to more aggressive competition and lower efficiency (Cason et al., 2012; Leibbrandt and Sääksvuori, 2012). Our hypothesis, based on theoretical analysis, is that asymmetric communication should have a less dramatic impact on payoffs and efficiency. This is because the non-communicating group cannot compete more aggressively because they lack a communication channel. In general, however, even though large differences exist in average individual payoffs across treatments, similar to the large differences in effective effort (Table 2), the payoff differences are not significant across treatments. This is due, in part, to the lottery contest success function that introduces substantial noise into individual payoffs. Consistent with Hypothesis 4, the subjects in the C-C treatment earn significantly less than subjects in the communicating group in the C-NC treatment, but even this large difference (9.87 versus 20.51) is only marginally significant (Mann-Whitney test, p-value<0.10 n=m=8). As already documented, though, average earnings in the NC-NC treatment are significantly greater than those in the C-C treatment (Mann-Whitney test, p-value<0.05, n=m=8).

Result 4: At marginal (*p*-value<0.10) significance levels: The communicating group in the C-NC treatment earns higher payoffs than the communicating group in the C-C treatment and similar payoffs to the non-communicating group in the NC-NC treatment. The non-communicating group in the C-NC treatment earns lower payoffs than the non-communicating groups in the NC-NC treatment.

To summarize, within-group communication causes groups to compete more aggressively. When only one group can communicate, the communicating group coordinates better and expends higher efforts than the non-communicating group. However, the communicating group earns payoffs that are not different from the baseline contest without communication, while the non-communicating group earns lower payoffs than in the baseline, non-communication contest. Allowing within-group communication in both groups leads to even more aggressive competition and the lowest payoffs to both groups. Therefore, it appears that although asymmetric within-group communication is not as harmful as symmetric communication, it leads to more aggressive competition and lower efficiency relatively to the case when no groups can communicate.

4.2. Endogenous Communication

Given that communication harms efficiency, do groups still choose to establish the "harmful" communication channel? To answer this question, we examine behavior of 24 groups in the Endogenous treatment. Table 3 summarizes the endogenous communication choices by periods. In periods 1-10 all 24 groups were assigned exogenously to the NC-NC treatment and were not allowed to communicate. Before period 11, members of each group voted whether to open the communication channel for periods 11-20. Overall, 65 out of 72 participants voted to open the channel of communication within their groups, resulting in 17 out of 24 groups having the ability to communicate during periods 11-20.[12] Consequently, 2 groups participated in the NC-NC treatment, 12 groups in the C-C treatment and 10 groups in the C-CN treatment. Before period 21, members of each group voted again to open the communication channel for periods 21-30. This time, 68 out of 72 participants voted to communicate within their groups, resulting in 20 out of 24 groups having the ability to communicate during periods 21-30.[13] Consequently, no groups participated in the NC-NC treatment, 16 groups in the C-C treatment and 4 groups in the C-CN treatment.[14] Therefore, it appears that the vast majority of participants, and consequently groups, endogenously choose to have continued access to communication.

Result 5: Majority of groups endogenously and consistently choose to have access to communication.

The previous section established that communication (implemented exogenously) harms efficiency. This raises the question: Why do groups still choose to establish the "harmful" communication channel? One possibility is that perhaps groups vote to communicate because their behavior is different when communication is chosen endogenously, and thus, communication does not lead to lower efficiency. The lower part of Table 2 summarizes the

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[12] Looking at the data from periods 1-10, we did not find any significant difference in group effort, wasted effort and payoffs between the 7 groups that voted against communication and the 17 groups that voted for communication. Given that communication is costless and groups have not yet experienced the potential harmful effect of communication, it is puzzling why these 7 subjects chose not to communicate.

[13] Three out of 7 subjects who voted against communication in the first vote continued choosing not to communicate in the second vote. The 4 groups that switched to communication in second vote all earned less than their opponent groups during periods 11-20.

[14] Only 1 of the 17 groups who communicated in periods 11-20 chose not to communicate in periods 21-30. This group faced very aggressive competition from the opponent group after communication was enabled and raised average effort from about 9 tokens in the first 10 periods to an average of 27.8 (compared to 22.3 by their opponent) in the second 10 periods. Although their average effort was higher than the opponent group, they only won 40% of the time. In this group, members expressed frustration via chat in period 19 [session 120827_1512, group 2]: "ID6: sad...." "ID 5: we have lost the last 3"; "ID 4: yeah they have had better odds luck". In period 20, ID 5 put in 0 tokens deviating from the proposal of "ok do 34 again". Perhaps as a result of this deviation, ID 6 voted against communication in period 21. Their opponent group who continued to communicate commented in period 21: "they don't communicate lol" "I know" "lol" "stupids" "and put 0 lol" "lets keep this going" "they lose the advantage".

average group effective (minimum) effort, individual effort, wasted effort, and payoffs in the Endogenous treatment. Figure 5 visually shows the comparison between behavior in the Endogenous and exogenous communication treatments. For average effort, no significant differences exist between NC-NC and en_NC-NC (8.29 versus 8.17; Mann-Whitney test, *p*-value=0.97, *n*=8, *m*=12), between C-C and en_C-C (18.86 versus 20.29; Mann-Whitney test, *p*-value=0.34, *n*=8, *m*=9), between non-communicating groups in C-NC and en_C-NC (8.85 versus 11.08; Mann-Whitney test, *p*-value=0.35, *n*=8, *m*=7), and between communicating groups in C-NC and en_C-NC (13.56 versus 13.29; Mann-Whitney test, *p*-value=0.73, *n*=8, *m*=7). Thus, it appears that what matters is the type of the communication channel, not whether the specific channel is created exogenously or endogenously. Groups that endogenously choose to communicate expend similar efforts than groups that are allowed to communicate exogenously.

Similarly to efforts, we find no statistical differences between the average wasted effort in the Endogenous treatment and exogenous treatments (all *p*-values are greater than 0.10).[15] The same is true when comparing the average payoffs (all *p*-values are greater than 0.10).

Result 6: Groups that endogenously choose to communicate expend similar efforts, achieve similar coordination and earn similar payoffs than groups that are allowed to communicate exogenously.

Note that as with exogenous communication, endogenously chosen within-group communication makes groups compete more aggressively. The competition level is moderate and payoffs are the highest when no group chooses to communicate. When only one group chooses to communicate, the competition level increases and payoffs decrease for the non-

[15] The only exception is the comparison between communicating groups in C-NC and en_C-NC (0.43 versus 1.34; Mann-Whitney test, *p*-value=0.07, *n*=8, *m*=7).

communicating group. Finally, when both groups choose to communicate this leads to the most aggressive competition and the lowest payoffs to both groups.

Despite such "harmful" effects of communication, it is surprising that groups endogenously and consistently choose to communicate even though this leads to lower payoffs and efficiency. To further explore the effects of communication and find out why communication is harmful, we analyze how subjects utilize communication and use content analysis to examine what kinds of messages are associated with more competitive behavior.

4.3. Analysis of Communication Content

The analysis of communication content is challenging because the qualitative information exchanged in chats is difficult to quantify objectively. The procedure that we used is becoming standard in the emerging experimental economics literature that explicitly analyzes how chat communication affects behavior. First, we randomly selected a session to develop a coding scheme. A careful analysis of messages in that session resulted in 16 independent categories shown in Table 4. Then we employed two individuals to code independently all chat room discussions into the coding categories. The unit of observation for coding was all messages in a given period within each chat room. If that chat room was deemed to contain the relevant category of content for that period it was coded as 1 for that category and 0 otherwise. Each unit was coded under as many or few categories as the coders deemed appropriate. The coders were not informed about any hypotheses of the study, although they read the experiment instructions provided to subjects so that they understood the strategic environment the subjects faced.

Coding is subjective so the coders do not always agree on the message classification. To assess whether a particular type of message meaning is reliably coded, we follow Henning-

Schmidt et al. (2008) and Cooper and Kühn (2014) in using a standard approach from content analysis methodology to adjust the reliability statistic to account for the number of categories that coders can use for classification. Agreement between the coders can occur by chance, especially if there are few categories for classification or that type of content is very frequently or infrequently observed. Cohen's Kappa (Krippendorff, 2004; Cohen, 1960) is a scaled measure of agreement that takes a value of 0 when the agreement is consistent with random chance and 1 when the coders agree perfectly. Kappa values between 0.41 and 0.60 are considered "Moderate" agreement, and those above 0.60 indicate "Substantial" agreement (Landis and Koch, 1977). Most of our message categories were coded at the "Moderate" or "Substantial" agreement. Some categories that were classified below the threshold of 0.4, as indicated by italic in Table 4, were excluded from analysis.

Table 4 displays the average frequency that the coders classified chat room discussions in specific categories. In all treatments, the most common category coded is "agreement reached within group" (category *C2a*), suggesting that 76%-92% of time group members coordinate by reaching agreement. Also, a considerable fraction of coded chat rooms (30%-40%) include discussions about using the same strategy over time, i.e., subjects want to "stick with the same strategy" (category *C2g*). The fact that subjects often reach agreement and coordinate on a specific strategy is consistent with Results 1 and 3, which document that within-group communication improves coordination.

Another category that is frequently coded (17%-38%) is about competition – subjects use messages to encourage competition and to evoke a desire to win the contest, i.e., "try to win/compete by raising effort" (category *C2d*). Finally, it appears from chat messages that subjects use Cournot belief updating (20%-38%), i.e., they "look back one period" (category

C1a), and they take into account the behavior of other group members (16%-38%), i.e., they "make choices by reasoning from the other group's point of view" (category *C1c*). These observations suggest that when examining how communication impacts effort in contests, it is important to control for learning, Cournot updating, and behavior of the opponents.

Table 5 reports estimation results of random effects models of individual effort choices ($Effort_t$) on previous period effort chosen by the competing group ($Othergroup\text{-}effort_{t\text{-}1}$) and the previous period effort squared ($Othergroup\text{-}effort_{t\text{-}1}$^2), to account for the inverted U-shaped best response reaction function illustrated in Figures 1-3. These models also control for the risk attitudes inferred from the separate lottery choice task (*Risk*), the effective effort chosen by that group in the previous period ($Group\text{-}effort_{t\text{-}1}$) and a nonlinear time trend (1/*period*).[16] Finally, all regressions are augmented with the reliably-coded categories of communication from Table 4.

The estimate on $Group\text{-}effort_{t\text{-}1}$ is positive and significant in all treatments and data subsets, suggesting that individuals learn to coordinate their individual effort to match their group effort. The estimate on *Messages* is positive and significant in the Endogenous treatment (columns 3 and 4), indicating that the more messages subjects send in the Endogenous treatment the more aggressive is their effort expenditure. In some treatments the estimates on categories *C1a*, *C1b*, and *C1c* are significant, suggesting that subjects are learning to best respond to the actions of others. In almost all cases the estimates on categories *C2c* and *C2d* are significant but with opposite signs. This is intuitive: the more subjects send messages about cooperation

[16] Before the subjects played 30 periods of the stage game, we elicited subjects' risk attitudes using multiple price list of 15 simple lotteries, similar to Holt and Laury (2002). Specifically, subjects were asked to state whether they preferred safe option A or risky option B. Option A yielded $1 payoff with certainty, while option B yielded a payoff of either $3 or $0. The probability of receiving $3 or $0 varied across all 15 lotteries. The first lottery offered a 0% chance of winning $3 and a 100% chance of winning $0, while the last lottery offered a 70% chance of winning $3 and a 30% chance of winning $0. At the end of the session, one of the 15 lottery decisions was randomly selected for payment. Overall, 74% of the subjects are risk averse in both the exogenous and endogenous treatments. Theoretically it is not clear how risk aversion may impact individual behavior in our game. However, most studies find that in simple lottery contests more risk-averse subjects choose lower efforts than less risk-averse subjects (Sheremeta and Zhang, 2010; Shupp et al., 2013; Dechenaux et al., 2015).

(category *C2c*) the lower is their effort and the more subjects send messages expressing their desire to compete and win (category *C2d*) the higher is their effort. Table 4 shows that there are almost twice as many messages about competition and winning (category *C2c*) than about cooperation (category *C2d*). The fact that subjects spend so many messages emphasizing competition and winning may help explaining why communication makes groups compete more aggressively. Finally, note that verbal bullying or punishment (category *C4a*) is associated with much greater effort. This suggests that these types of statements, while used infrequently, can restore higher efforts and promote the aggressive competition seen in the presence of communication.

5. Conclusion

Recent research has shown that allowing within-group communication in competitive coordination games, such as rent-seeking contests, may lead to more aggressive competition between groups and lower efficiency. This study further explores potentially harmful effects of communication in competitive coordination games, by addressing the questions of (i) asymmetric communication and (ii) the endogenous emergence of communication. Our theoretical analysis provides a number of testable hypotheses regarding the effect of communication on competitive behavior and efficiency. We test these predictions using a laboratory experiment. The experiment shows that that although asymmetric communication is not as harmful as symmetric communication, it leads to more aggressive competition and lower efficiency relative to the case when neither groups can communicate. We use content analysis to analyze why communication is harmful and find that subjects often send messages expressing their desire to compete and win. Moreover, such messages are positively and significantly correlated with effort expenditures in the contest. These types of communication patterns can help explain overly aggressive competition in the presence of communication. The experiment also reveals that despite the "harmful" effect of communication, groups endogenously and consistently choose to communicate even though this leads to lower payoffs and efficiency.

The results of our experiment indicate that both groups can increase their payoffs by restricting within-group communication. However, the question is why groups, instead of restricting their communication channel, choose to communicate, thus aggravating competition and lowering efficiency?

One possible explanation is that the desire to communicate is hard-wired into people. Researchers in communication studies identify several main reasons why people communicate: people communicate to engage and persuade others, and to seek and provide information and to express emotions like frustration, joy, or disappointment. Especially when people face tasks that involve conflicts and competition, communication is one of the most sought-after ways to settle conflict (Cragan and Wright, 1990). In our experiment, in the vast majority of cases all three group members are engaged in communication by sending messages and on average each subject sends about 2-3 message lines in a given communication period. Communication is used effectively to coordinate own member's efforts to compete against the opponent group. Moreover, subjects mainly express positive attitude regarding the opportunity to communicate (See Table 4). Second, it is possible that subjects' objectives are not only monetary. Sheremeta (2010) finds that subjects are willing to incur monetary costs to be announced as winners.[17] Others find that status may be important (Kosfeld and Neckermann, 2011; Charness et al., 2014). Similarly, we find that subjects frequently talk about winning and such messages lead to more

[17] This finding has been replicated by Price and Sheremeta (2011, 2014), Brookins and Ryvkin (2014) and Mago et al. (2015).

aggressive competition. In some cases the chat messages indicate that subjects were willing to forgo payoffs for the joy of winning: “we might earn 10 francs less, but we can increase chances of winning”. Therefore, if winning is a component of individual utility, then subjects, who may even be perfectly aware of harmful effects of communication, may still choose to communicate in order to increase their utility of winning.[18] Related to this argument is the idea that instead of maximizing individual payoff, a subject may want to maximize his/her payoff relative to the opponent’s payoff (also known as an evolutionary stable strategy). Indeed, some studies provide evidence for such behavior in contests (Mago et al., 2015). Therefore, choosing to communicate can be a dominant strategy, since communicating group in the C-NC treatment receives higher payoff than the non-communicating group. Finally, it is possible that communication increases saliency of group identity (Chen and Li, 2009; Sutter, 2009), and subjects may prefer to communicate in order to strengthen their group identity. Messages that highlight collective group goals and common group identity, strengthen group-based norms and manipulate the perceptions of the in-group and out-group are often observed in our experiment (e.g., “don’t be selfish” “our group rocks”; “wow group b is stupid”; “.it was good working with you guys”).

The bulk of literature in cheap talk communication builds upon findings from experiments where the choice of communication is exogenous. However in reality whether or not to communicate is most often an endogenous choice of individuals. There are only a handful of papers exploring the effect of endogenous communication on coordination and all of them focus on costly communication (Andersson & Holm, 2010 & 2013; Kriss et al. 2012). The main message from this small strand of literature is that efficient coordination is reduced because people choose to communicate too little even when the communication costs are small relative to

[18] Indeed, we find that in the C-NC treatment, the communicating group wins significantly more often than the non-communicating group.

the communication gain. It will be interesting to see whether imposing a small communication cost in our experiment will prevent groups from talking too much and increase efficiency in our competitive coordination game. The experimental environment implemented the classical Tullock model of rent-seeking, which has been widely used to model incentives for competing interest groups to influence public policy. While more confident conclusions await further research, we can note preliminary implications of our results for this setting. In particular, our findings indicate that both symmetric and asymmetric within-group communication results in greater wasteful rent-seeking. Drawing on results from Sutter and Strassmair (2009) and Sheremeta (2011), we conjecture that other mechanisms to aggregate individual efforts into group contests would also result in increased efforts when groups can communicate. Our general conjecture is that in group rent-seeking contests, similar to the one studied in this paper, mechanisms such as communication that lead to better within-group coordination will reduce efficiency. Future research can investigate how robust our findings are when the best-shot or summation (perfect-substitutes) technology is used within groups instead of the weakest-link effort aggregation rule (Abbink et al., 2010; Sheremeta, 2011; Chowdhury et al., 2013). We chose to focus on the weakest-link rule in the present study, since it affords subjects the ability to unilaterally reduce their group's choice, increasing the chances that some group members would reduce the excessive effort expenditures and improve efficiency. Groups uniformly fail to take advantage of this opportunity, and given the opportunity, they endogenously choose to communicate which leads to more aggressive competition and lower efficiency.

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Figure 1: Nash equilibria when neither group *A* nor group *B* can communicate (NC-NC)

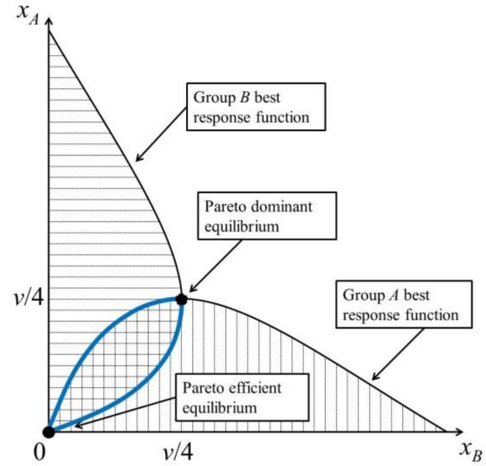


Figure 2: Nash equilibrium when both group *A* and group *B* can communicate (C-C)

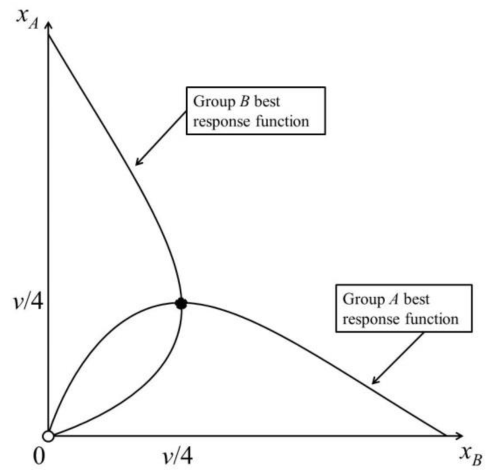


Figure 3: Nash equilibria when only group *A* can communicate (C-NC)

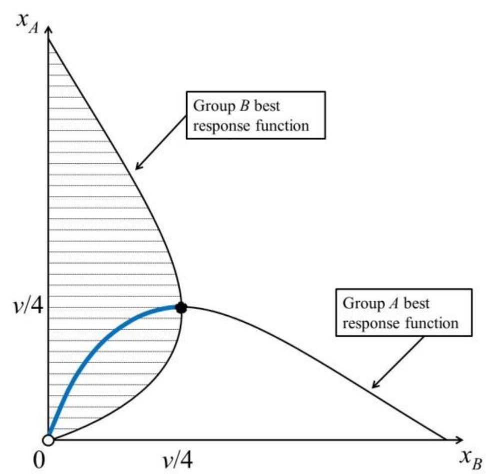


Figure 4: Effective group effort over time by treatment

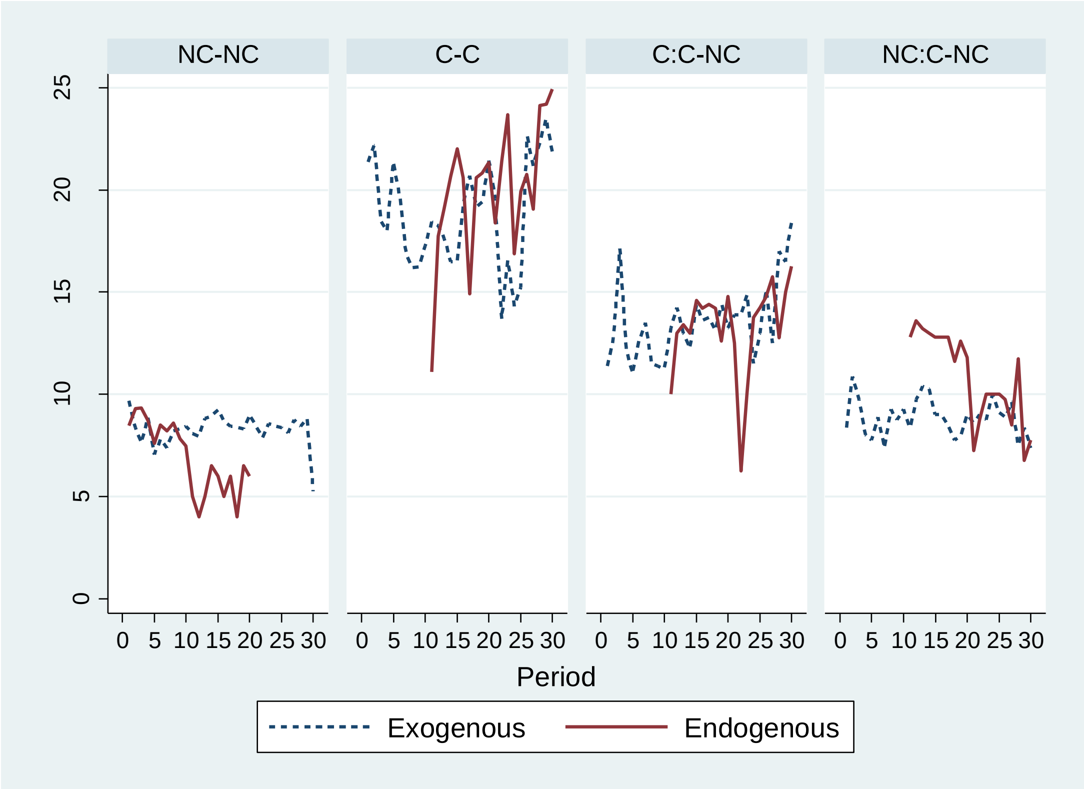


Figure 5: Comparing behavior in the Endogenous treatment to Exogenous treatments

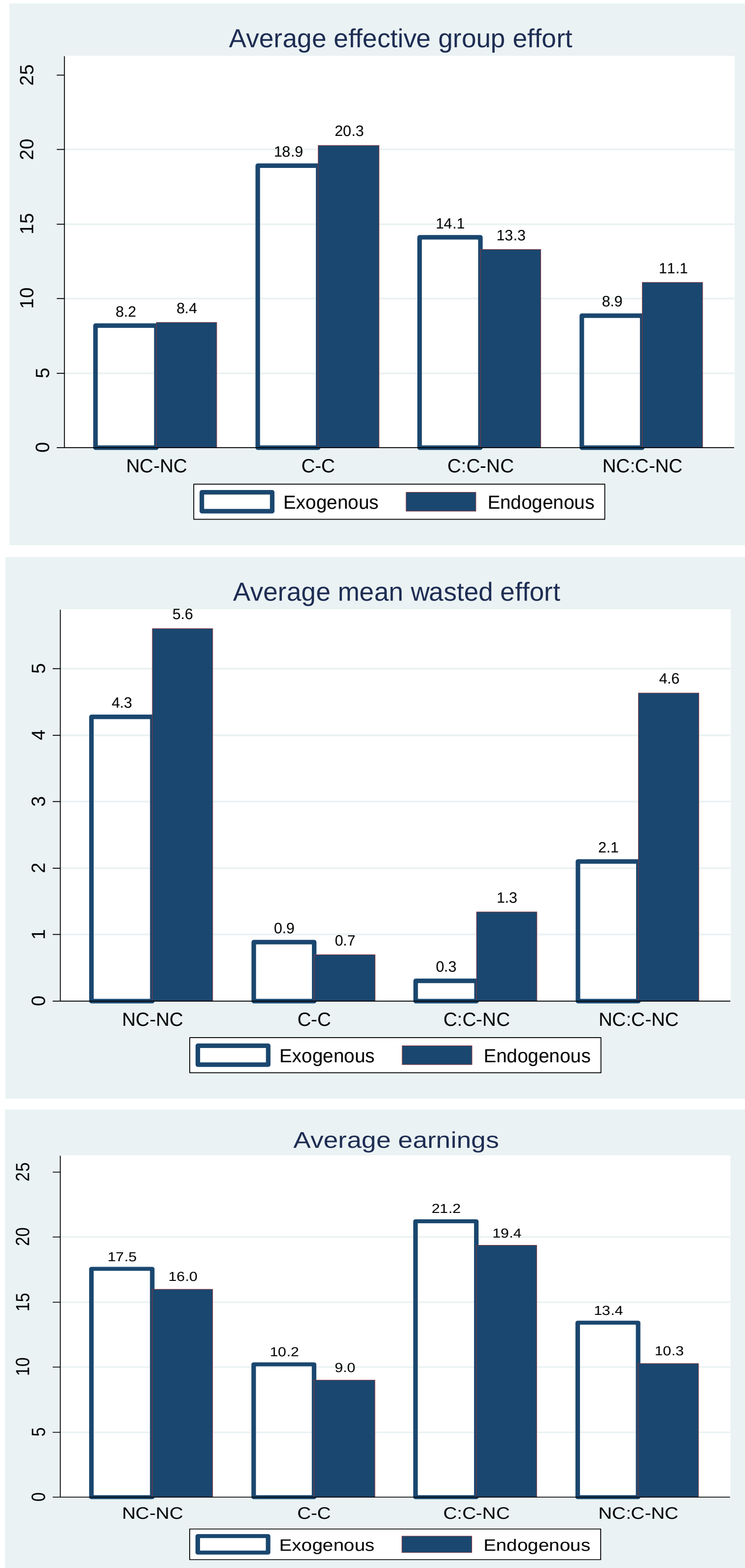


Table 1: Experimental design of treatments

Treatment	Independent Groups and Subjects
NC-NC	8 Group pairs and 48 Subjects
C-C	8 Group pairs and 48 Subjects
C-NC	8 Group pairs and 48 Subjects
Endogenous	12 Group pairs and 72 Subjects

Table 2: Summary statistics by treatment (all periods)

Treatment	Average			
	Group Effective Effort	Individual Effort	Wasted Effort	Individual Payoff
Exogenous Communication				
NC-NC	8.29	11.18	2.89	18.82
	(0.12)	(0.20)	(0.16)	(0.81)
C-C	18.86	20.13	1.27	9.87
	(0.30)	(0.31)	(0.14)	(0.78)
C-NC	8.85	11.30	2.45	14.20
(non-communicating group)	(0.18)	(0.23)	(0.17)	(1.08)
C-NC	13.56	13.99	0.43	20.51
(communicating group)	(0.23)	(0.23)	(0.07)	(1.09)
Endogenous Communication				
en_NC-NC	8.17	13.50	5.33	16.50
	(0.19)	(0.39)	(0.35)	(1.12)
en_C-C	20.29	20.98	0.70	9.02
	(0.39)	(0.39)	(0.12)	(1.00)
en_C-NC	11.08	15.71	4.64	10.29
(non-communicating group)	(0.30)	(0.62)	(0.55)	(1.93)
en_C-NC	13.29	14.63	1.34	19.37
(communicating group)	(0.31)	(0.41)	(0.25)	(1.80)

Standard errors shown in parentheses.

Table 3: Choice of endogenous communication by periods

Group ID	Periods 1-10	Periods 11-20	Periods 21-30
	(Exogenous)	Endogenous Choice	
5(A,B), 6(A,B), 9(A,B), 10(A,B), 12(A,B)	NC-NC	C-C	C-C
1(A,B), 8(A,B), 11(A,B)	NC-NC	C-NC	C-C
2(A,B), 7(A,B)	NC-NC	C-NC	C-NC
3(A,B)	NC-NC	C-C	C-NC
4(A,B)	NC-NC	NC-NC	C-NC

Table 4: Categories for coding messages and observed frequency in chat rooms

Category	Description	Relative Frequency of Coding							
		Exogenous Communication				Endogenous Communication			
		C-C (Obs 472)	Kappa	C-NC (Obs 238)	Kappa	C-C (Obs 280)	Kappa	C-NC (Obs 89)	Kappa
C1	Learning and best response								
C1a	Look back one period	0.20	0.66	0.20	0.43	0.30	0.47	*0.38*	*0.38*
C1b	Look back at all or some (multiple) past periods, not just last period	0.10	0.42	0.12	0.42	0.12	0.59	0.10	0.75
C1c	Make choices by reasoning from the other group's point of view	0.26	0.70	0.16	0.52	0.38	0.73	0.19	0.56
C2	Communication within group								
C2a	Agreement reached within group	0.82	0.64	0.76	0.76	0.92	0.57	0.84	0.69
C2b	No agreement reached within group	0.06	0.52	*0.07*	*0.34*	0.05	0.49	*0.06*	*0.32*
C2c	Try not to compete/cooperate by lowering effort	0.23	0.67	0.16	0.59	0.19	0.80	0.13	0.85
C2d	Try to win/compete by raising effort	0.33	0.55	0.17	0.85	0.38	0.73	0.31	0.74
C2e	Try to match with the opponent group effort from last period	*0.04*	*0.27*	*0.01*	*-0.01*	*0.05*	*0.31*	0.03	0.66
C2f	Try to win/compete by being unpredictable	*0.03*	*0.21*	*0.03*	*-0.03*	*0.04*	*0.14*	*0.01*	*-0.01*
C2g	Stick with the same strategy	0.37	0.82	0.40	0.82	0.30	0.79	0.32	0.80
C2h	Cooperate until the other group defects or until the last period to defect	0.00	N/A	0.03	0.41	*0.01*	*-0.01*	*0.01*	*-0.01*
C2i	Luck	0.10	0.51	0.08	0.60	0.09	0.65	0.11	0.59
C3	Opportunity to communicate								
C3a	Positive attitude	0.00	N/A	0.02	0.53	0.01	0.86	0.06	0.90
C3b	Negative attitude	0.00	N/A	0.00	N/A	0.01	0.66	0.01	1.00
C4	Other								
C4a	Verbal bullying or punishment	0.03	0.63	*0.01*	*-0.01*	0.01	0.86	0.01	1.00
C4b	Nothing relevant or fits	0.05	0.56	0.16	0.78	0.00	N/A	0.03	1.00

Entries in italic indicate codes that did not reach the 0.4 Cohen's kappa reliability threshold.

Table 5: Effects of communication on individual effort choices (last 20 periods)

	Treatment and Data Subset			
Dependent variable, *Effort*$_t$	C-C	C-NC	en_C-C	en_C-NC
Model	(1)	(2)	(3)	(4)
Othergroup-effort$_{t-1}$	-0.08	0.21	0.16	0.63
[effective effort of other in *t*-1]	(0.062)	(0.137)	(0.093)	(0.502)
Othergroup-effort$_{t-1}$^2	0.00*	-0.00	-0.00	-0.02
[squared effective effort of other in *t*-1]	(0.002)	(0.007)	(0.002)	(0.018)
Risk	0.05	0.01	0.16	-0.37
[number of risky options B]	(0.136)	(0.078)	(0.119)	(0.323)
Group-effort$_{t-1}$	0.67**	0.80**	0.61**	0.45**
[effective group effort in *t*-1]	(0.051)	(0.053)	(0.034)	(0.105)
1/*period*	-30.94*	-14.26	-44.19*	-1.64
[inverse of period number *t*]	(12.407)	(10.070)	(19.216)	(17.200)
Constant	9.36**	1.82**	6.75**	4.97
	(1.968)	(0.690)	(2.617)	(3.483)
Messages	-0.25	0.09	1.13**	0.87**
[average # of interruption per subject in chat]	(0.276)	(0.232)	(0.224)	(0.155)
C1a	0.49	0.08	-1.76*	-0.30
[look back one period]	(0.800)	(0.542)	(0.832)	(0.225)
C1b	-0.61	1.17**	-0.95	-1.00
[look back at all or some (multiple) periods]	(0.709)	(0.359)	(0.853)	(0.613)
C1c	-0.79	-2.33**	-1.22**	-0.94
[make choices reasoning from other's view]	(0.614)	(0.569)	(0.467)	(1.061)
C2a	1.75	0.57	-3.60	0.28
[agreement reached within group]	(1.378)	(1.152)	(2.197)	(1.319)
C2b	-3.17		-5.47	
[no agreement reached within group]	(1.789)		(3.019)	
C2c	-10.53**	-4.60**	-11.42**	-1.98
[try not to compete/cooperate by lowering effort]	(1.226)	(1.128)	(1.264)	(1.562)
C2d	5.66**	5.13**	10.84**	0.29
[try to win/compete by raising effort]	(0.986)	(0.782)	(1.098)	(0.976)
C2e				0.25
[try to match with the opponent group effort]				(1.300)
C2g	-2.87**	0.40	1.66	0.26
[stick with the same strategy]	(0.617)	(1.095)	(0.929)	(0.922)
C2h		-1.66		
[cooperate until the other group defects or the last period]		(0.979)		
C2i	0.94	-1.20*	-0.75	0.41
[luck]	(1.065)	(0.583)	(0.580)	(0.585)
C3a		0.32	7.40**	-1.50**
[positive statements about being able to communicate]		(0.822)	(1.276)	(0.538)
C3b			-4.98**	-0.07
[Negative statements about being able to communicate]			(0.678)	(1.318)
C4a	15.27**		16.46**	5.63**
[verbal bullying or punishment]	(1.832)		(1.674)	(1.151)
Observations	936	474	786	249
Number of Subjects	48	24	54	21

* significant at 5%, ** significant at 1%. Standard errors robust to general heteroscedasticity are shown in parentheses. All models include a random effects error structure, with individual subject effects.

Appendix A (Not for Publication) – Experiment Instructions

GENERAL INSTRUCTIONS

This is an experiment in the economics of strategic decision making. Various research agencies have provided funds for this research. The instructions are simple. If you follow them closely and make appropriate decisions, you can earn an appreciable amount of money.

The experiment will proceed in two parts. Each part contains decision problems that require you to make a series of economic choices which determine your total earnings. The currency used in Part 1 of the experiment is U.S. Dollars. The currency used in Part 2 of the experiment is francs. Francs will be converted to U.S. Dollars at a rate of _25_ francs to _1_ dollar. At the end of today's experiment, you will be paid in private and in cash. **12** participants are in today's experiment.

It is very important that you remain silent and do not look at other people's work. If you have any questions, or need assistance of any kind, please raise your hand and an experimenter will come to you. If you talk, laugh, exclaim out loud, etc., you will be asked to leave and you will not be paid. We expect and appreciate your cooperation.

At this time we proceed to Part 1 of the experiment.

INSTRUCTIONS FOR PART 1
YOUR DECISION

In this part of the experiment you will be asked to make a series of choices in decision problems. How much you receive will depend partly on **chance** and partly on the **choices** you make. The decision problems are not designed to test you. What we want to know is what choices you would make in them. The only right answer is what you really would choose.

For each line in the table in the next page, please state whether you prefer option A or option B. Notice that there are a total of **15 lines** in the table but just **one line** will be randomly selected for payment. You ignore which line will be paid when you make your choices. Hence you should pay attention to the choice you make in every line. After you have completed all your choices a token will be randomly drawn out of a bingo cage containing tokens numbered from **1 to 15**. The token number determines which line is going to be paid.

Your earnings for the selected line depend on which option you chose: If you chose option A in that line, you will receive **$1**. If you chose option B in that line, you will receive either **$3** or **$0**. To determine your earnings in the case you chose option B there will be second random draw. A token will be randomly drawn out of the bingo cage now containing twenty tokens numbered from **1 to 20**. The token number is then compared with the numbers in the line selected (see the table). If the token number shows up in the left column you earn $3. If the token number shows up in the right column you earn $0.

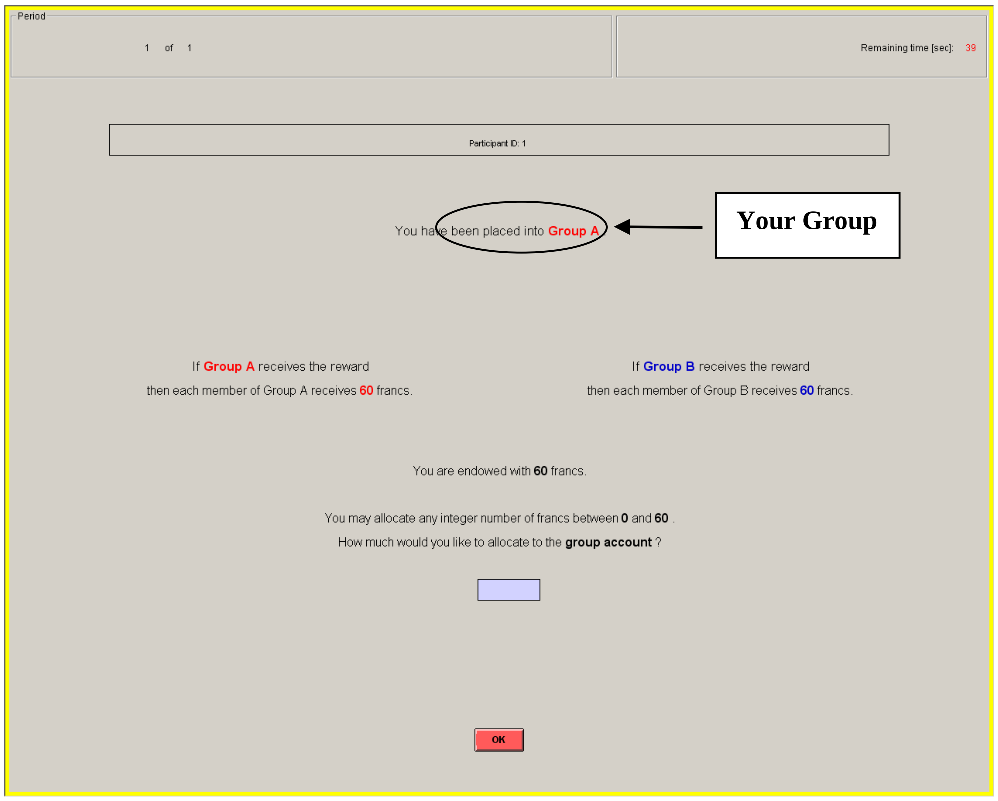
Decision no.	**Option A**	**Option B**		Please choose A or B
1	**$1**	**$3** never	**$0** if 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
2	**$1**	**$3** if 1 comes out of the bingo cage	**$0** if 2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
3	**$1**	**$3** if 1 or 2	**$0** if 3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
4	**$1**	**$3** if 1,2,3	**$0** if 4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
5	**$1**	**$3** if 1,2,3,4,	**$0** if 5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
6	**$1**	**$3** if 1,2,3,4,5	**$0** if 6,7,8,9,10,11,12,13,14,15,16,17,18,19,20	
7	**$1**	**$3** if 1,2,3,4,5,6	**$0** if 7,8,9,10,11,12,13,14,15,16,17,18,19,20	
8	**$1**	**$3** if 1,2,3,4,5,6,7	**$0** if 8,9,10,11,12,13,14,15,16,17,18,19,20	
9	**$1**	**$3** if 1,2,3,4,5,6,7,8	**$0** if 9,10,11,12,13,14,15,16,17,18,19,20	
10	**$1**	**$3** if 1,2,3,4,5,6,7,8,9	**$0** if 10,11,12,13,14,15,16,17,18,19,20	
11	**$1**	**$3** if 1,2, 3,4,5,6,7,8,9,10	**$0** if 11,12,13,14,15,16,17,18,19,20	
12	**$1**	**$3** if 1,2, 3,4,5,6,7,8,9,10,11	**$0** if 12,13,14,15,16,17,18,19,20	
13	**$1**	**$3** if 1,2, 3,4,5,6,7,8,9,10,11,12	**$0** if 13,14,15,16,17,18,19,20	
14	**$1**	**$3** if 1,2, 3,4,5,6,7,8,9,10,11,12,13	**$0** if 14,15,16,17,18,19,20	
15	**$1**	**$3** if 1,2, 3,4,5,6,7,8,9,10,11,12,13,14	**$0** if 15,16,17,18,19,20	

INSTRUCTIONS FOR PART 2

YOUR DECISION

The second part of the experiment consists of **30** decision-making periods. At the beginning of the first period, you will be randomly and anonymously placed into a group of **3 people**: group A or group B. You will remain in the same group for all 30 periods of the experiment. At the beginning of the first period, your group will be paired with another group. This pairing remains the same for all 30 periods of the experiment. Either group A or group B will receive a reward. The reward is **60 francs** to each group member.

Each period you will be given an endowment of **60** francs and asked to decide how much to allocate to the **group account** or the **individual account**. You may allocate any integer number of francs between **0** and **60**. An example of your decision screen is shown below.



COMMUNICATION

In some periods before they are asked to make the allocation decision, participants may have an opportunity to communicate with the other two participants in their own group. This communication will consist of messages exchanged in a "chat area" shown on their computer screen. Any messages sent in this chat will only be viewed by you and the other two members in your group. The chat time will be active for 60 seconds each period that this communication opportunity is available. In periods that the communication opportunity is not available, there will be a 60 second break each period before the allocation decision.

Although we will record the messages you send to each other, your chat id remains anonymous. The first person to send a message in a period will always be referred to as "member 1", the second as "member 2" and so on. In sending messages, you should follow two basic rules: (1) be civil to one another and do not use profanities, and (2) do not identify yourself in any manner. The communication channel is intended to discuss your allocation choices and should be used that way.

After the chat period is over, all group members then make their actual decisions simultaneously; you do not learn the actual allocation decisions of your group members until after you make your decision.

In decision-making periods 1-10 there will be no opportunity for communication. Before period 11 you and the other two participants in your group will vote to determine whether to communicate each period before making an allocation in periods 11-20. Only if all three participants unanimously vote to communicate will the chat room be created for communication. Before period 21 another vote will determine whether you and your group communicate each period before making an allocation in periods 21-30. Again, communication will occur only if all three participants unanimously vote to communicate.

Both groups will vote before periods 11 and 21, so in some cases both groups A and B might communicate, in other cases neither group A nor B communicate, and in other cases only one of the two groups will communicate. Your decision screen where you make your allocation will always indicate which (if any) of the two groups communicated that period.

YOUR EARNINGS

After all participants have made their decisions, your earnings for the period are calculated. These earnings will be converted to cash and paid at the end of the experiment if the current period is one of the five periods that is randomly chosen for payment.

1) Your period earnings are the **sum of the earnings** from your **individual account** and the earnings from your **group account**.
2) For each franc in your individual account, you will earn **1** franc in return. So, if you keep all 60 francs that you are endowed with to your individual account you will earn 60 francs. But you can also earn some francs from your group account.
3) By contributing to the group account you may increase the **chance** of receiving the reward for your group. In determining which group receives the reward, the computer will consider only **the lowest contribution in group A's account** and **the lowest contribution in group B's account**. If the lowest contribution in group A's account exceeds the lowest contribution in group B's account, group A has higher chance of receiving the reward and vise-versa. In particular, your group's chance of receiving the reward is

   (Your Group's Minimum Bid)/(Minimum Bid in group A + Minimum Bid in group B)

   If both group's minimum bids are 0, the reward is randomly assigned to one of the two groups.
4) If your group receives the reward then in addition to the earnings from your individual account you receive the reward of **60 francs** from your group account. A group can never guarantee itself the reward. However, by increasing your contribution, you can increase your group's chance of receiving the reward.
5) The computer will assign the reward either to your group or to the other group, **via a random draw**. So, in each period, only one of the two groups can obtain the reward.

Example: Random Draw and Earnings

This is a hypothetical example used to illustrate how the computer is making a random draw. Let's say the members of groups A and B allocate their francs in the following way.

Table 1 – Allocation of francs by all members in group A and B

Group A	If Group A receives reward	Allocation to **individual account**	Allocation to **group account**
Member 1	60	40	20
Member 2	60	45	15
Member 3	60	50	**10**

Group B	If Group B receives reward	Allocation to **individual account**	Allocation to **group account**
Member 1	60	59	**1**
Member 2	60	50	10
Member 3	60	55	5

In group A, member 1 contributes 20 francs, member 2 contributes 15 francs, and member 3 contributes 10 francs to group A's account. In group B, member 1 contributes 1 franc, member 2 contributes 10 francs, and member 3 contributes 5 francs to group B' account.

Then the computer chooses **the lowest contribution in group A's account** and **the lowest contribution in group B's account**. The two highest contributions in group A and the two highest contributions in group B will **not** be considered by the computer. In this example, member 3 has the lowest contribution of **10 francs** in group A and member 1 has the lowest contribution of **1 franc** in group B. For each franc of member 3 in group A the computer puts **1 red token** into a bingo cage and for each franc of member 1 in group B the computer puts **1 blue token**. Thus, the computer places **10 red tokens** and **1 blue token** into the bingo cage (**11 tokens total**). Then the computer randomly draws one token out of the bingo cage. If the drawn token is red group A receives the reward, if the token is blue group B receives the reward. You can see that since group A has more tokens it has a higher chance of receiving the reward (**10 out of 11 times** group A will receive the reward). Group B has a lower chance of receiving the reward (**1 out of 11 times** group B will receive the reward).

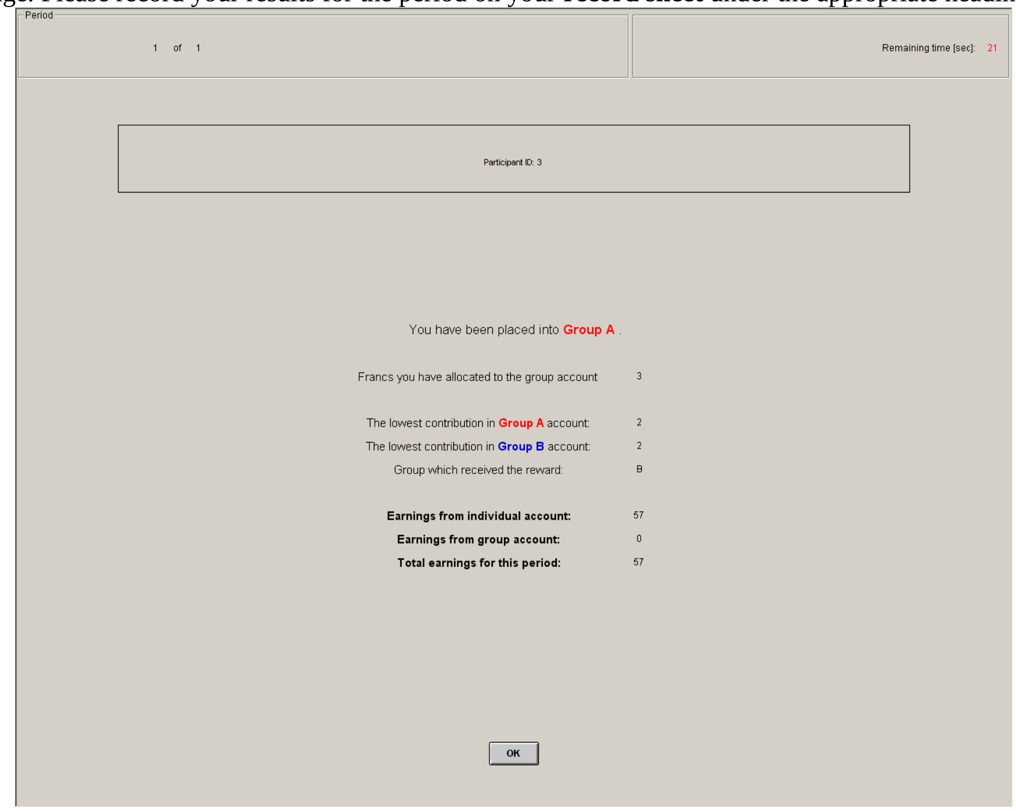
Let's say the computer made a random draw and **group A receives the reward**. Thus, all the members of group A receive the reward of 60 francs from the **group account** plus they also receive earnings from the **individual account**. All members of group B receive earnings **only from the individual account**, since group B does not receive the reward. The calculation of the total earnings is shown in Table 2 below.

Table 2 – Calculation of earning for all members in group A and B

Group A	Earnings from **group account**	Earnings from **individual account**	Total earnings
Member 1	**60**	**40**	60+40 = 100
Member 2	**60**	**45**	60+45 = 105
Member 3	**60**	**50**	60+50 = 110

Group B	Earnings from **group account**	Earnings from **individual account**	Total earnings
Member 1	**0**	**59**	59
Member 2	**0**	**50**	50
Member 3	**0**	**55**	55

At the end of each period, the total number of francs in the two groups' accounts, group which receives the reward, earnings from individual and group accounts, and total earnings for the period are reported on the outcome screen as shown on the next page. Please record your results for the period on your **record sheet** under the appropriate heading.



Outcome Screen

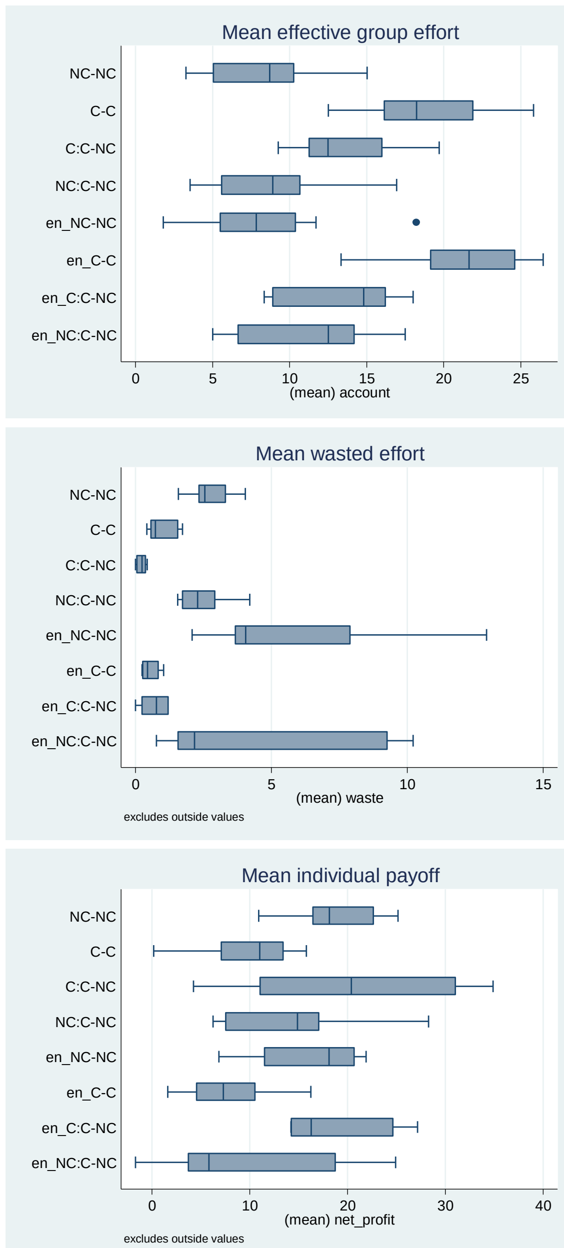
IMPORTANT NOTES

You will not be told which of the participants in this room are assigned to which group. At the beginning of the first period, you will be randomly and anonymously placed into a group of 3 people: group A or group B. You will remain in the same group for all 30 periods of the experiment. At the beginning of the first period, your group will be paired with another group. This pairing remains the same for all 30 periods of the experiment. Either group A or group B will receive a reward. The reward is **60 francs** to each group member. A group can never guarantee itself the reward. However, by increasing your contribution, you can increase your group's chance of receiving the reward.

At the end of the experiment we will randomly choose **5 of the 30** periods for actual payment in **Part 2** using a bingo cage. You will sum the total earnings for these 5 periods and convert them to a U.S. dollar payment.

Appendix B (Not for Publication) – Additional Analysis

Figure B1: Distribution of mean effective group effort, mean wasted effort and mean individual payoff from minimum to maximum according to the medians of the distributions



The distributions are represented by box and whisker diagrams for which the left and right edges of the boxes are 75th and 25th percentiles of the distribution, the ends of the "whiskers" are the highest and lowest values in the distribution, the vertical bar in the box is the median of the distribution and the mid-point between the top and bottom edges of the box is the mean of the distribution.