Money vs. Gaming: Effects of Salient Monetary Payments in Double Oral Auctions

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The significance of using performance-based monetary rewards in laboratory experiments has been a subject of debate among experimental economists and psychologists. Empirical evidence presented in this paper suggests that payment of performance-based monetary rewards in double oral markets is not a necessary condition for convergence to equilibrium. However, such rewards do increase the reliability or reproducibility of laboratory results and, therefore, constitute a valuable, albeit expensive, research tool.

Experimental psychologists and economists differ in the emphasis they place on the significance of providing performance-based rewards to human subjects. Psychologists (e.g., Tversky & Kahneman, 1986) tend to assume that subjects provide truthful responses in experiments and therefore consider the provision of performance-based rewards unnecessary. Accordingly, they pay fixed sums to their subjects (in dollars or in course credits) without establishing an explicit link between the amount of payment and the subjects’ performance. Economists (e.g., Smith, 1982), on the other hand, view the provision of performance-based rewards to be crucial for the validity and reliability of their experiments. Further, their rewards are almost always monetary.

Do performance-based monetary rewards have a significant impact on subject behavior? Wright and Aboul-Ezz (1988) observed significant effects of performance-contingent extrinsic incentives in individual tasks. However, prior research suggests that information processing depends on the nature of the task and is quite sensitive to seemingly minor variations (Einhorn and Hogarth, 1981). We therefore narrow the scope of our enquiry to: Do performance-based monetary rewards have a significant impact on the behavior of subjects in double oral market settings? Empirical evidence presented in this paper suggests an affirmative answer.