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# Deception and Reception: The Behavior of Information Providers and Users

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## Highlights

- We examine subjects' behavior as both underwriters (senders) and investors (receivers) in an information transmission game across four different payoff settings
- We elicit subjects' decisions in four gambles that are payoff-equivalent to the four game settings, allowing us a measure of investors' beliefs of underwriters' strategies
- In the baseline treatment (labeled REAL), subjects decision to invest could have been a function of beliefs of others' strategies as well as distributional preferences (other-regarding). Our updated design holds the subjective beliefs constant across treatments, and eliminates the 'other' in the ROBOT treatment, thus distributional preferences are not applicable in the ROBOT treatment.
- We find significant proportion of both deceptive and non-deceptive underwriters, and investors thus glean information content from underwriters' reports
- However, analysis suggests investors are overly optimistic of underwriters' truthful reporting
- Paradoxically, subjects who are deceptive as underwriters and appropriately receptive as investors earn the highest payoffs

## Abstract

We investigate the behavior of information providers (underwriters) and users (investors) in a controlled laboratory experiment where underwriters have incentives to deceive and investors have incentives to avoid deception. Participants play simultaneously as underwriters and investors in one-shot information transmission games. The results of our experiment show a significant proportion of both deceptive and non-deceptive underwriters. Despite the presence of deceptive underwriters, investors are receptive to underwriters' reports, gleaning information content, albeit overly optimistic. Within our sample,

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