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Monetary and non-monetary incentives in real-effort tournaments

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Abstract

Results from laboratory experiments using real-effort tasks provide mixed evidence on the relationship between monetary incentives and effort provision. To examine this issue, we design three experiments where subjects participate in two-player real-effort tournaments with two prizes. Experiment 1 shows that subjects exert high effort even if there are no monetary incentives, suggesting that non-monetary incentives are contributing to their effort choices. Moreover, increasing monetary incentives does not result in higher effort provision. Experiment 2 shows that the impact of non-monetary incentives can be reduced by providing subjects with the option of leaving the laboratory early, using an incentivized timeout button, or working on an incentivized alternative activity. Experiment 3 revisits the relationship between monetary incentives and effort provision using the insights from Experiment 2. Using a design with an incentivized alternative activity, we show that participants increase effort in response to monetary incentives. Taken together, the findings from the three experiments suggest that results from real-effort tasks require a careful evaluation and interpretation of the motivations underlying the observed performance.

Keywords: Real-effort tasks; Laboratory experiments; Contests; Non-monetary incentives; Monetary incentives

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