Self-confidence and Strategic Behavior

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ABSTRACT. We test experimentally an explanation of over and under confidence as motivated by (perhaps unconscious) strategic concerns, and find compelling evidence supporting this hypothesis in the behavior of participants who send and respond to others' statements of confidence about how well they have scored on an IQ test. In two-player tournaments where the highest score wins, one is likely to enter at equilibrium when he knows that his stated confidence is higher than the other player's, but very unlikely when the reverse is true. Consistent with this behavior, stated confidence by males is inflated when deterrence is strategically optimal and is instead deflated by males and females when luring (encouraging entry) is strategically optimal. This behavior is consistent with the equilibrium of the corresponding signaling game. Based on the theory of salient perturbations, we propose a strategic foundation of overconfidence. Since overconfident statements are used in familiar situations in which it is strategically effective, it may also occur in the absence of strategic benefits, provided the environment is similar.

Keywords: Self-confidence, overconfidence, salient perturbations, analogies, strategic deterrence, unconscious behavior, self-deception, luring, experiment

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1. Introduction

Belief about one's abilities is an important ingredient in many decisions, including making career choices, undertaking enterprises, and taking risks. There is considerable evidence that statements people make about their abilities often don't accurately reflect their real abilities. Well-known studies in psychology and economics claim that people are overconfident in their ability (e.g., Svenson, 1981; Dunning, Meyerowitz, and Holzberg, 1989).[1] However, the roots of such apparent overconfidence in relative ability and the corresponding benefits that might explain the persistence of the phenomenon are not yet clear. A possible personal benefit from overconfidence is the consumption value (ego utility, in the terminology of Koszegi, 2006) of the belief that one is talented. In this view, people feel better with a favorable self-perception, even at the cost of being overconfident and thus making wrong choices. A related theory is that overconfidence is caused by social image concerns: people desire to appear skilled towards others. Some recent studies support this view (Burks et al, 2013; Ewers and Zimmermann, 2014).

We consider here an additional and complementary explanation, postulating a strategic foundation of overconfidence. Statements about one's beliefs are often made to affect the beliefs (and thus the decisions) of others. This occurs in strategic situations, which are common in social life. For instance, appearing more confident is likely to increase one's chances to be hired or to receive a promotion, and may discourage others from competing for that same position or promotion. Or it may elicit cooperation by others if they seek talented colleagues to start a joint project. However, in other situations it may pay to appear less skillful than one actually is, as in the case of a pool hustler. One could also employ this strategy in the workplace for example to elicit help by others. We emphasize that the fact that people may be overconfident for strategic purposes does not exclude other motivations like social image concerns also playing a role, and the different motivations may in fact be complementary to each other.

Our paper makes a number of novel contributions. First and foremost, we provide a strategic foundation for expressed overconfidence and under-confidence, both in an equilibrium model and in

[1]We note that while overconfidence is found in many studies, there is mixed evidence for it (see for instance Clark and Friesen, 2009) and its prevalence depends on factors such as personal experience (Weinstein, 1980) or task-difficulty (Kruger, 1999; Hoelzl and Rustichini, 2005). We return to this issue in the section on related literature.

our experimental data. Second, we argue that our evidence is consistent with the notion of salient perturbations or some form of reasoning through similarity. Third, we find gender differences with respect to strategically inflating confidence, but not with respect to strategically deflating confidence (which appears to be conscious and deliberate). We elaborate on each of these aspects below.

We study how reporting a level of confidence is consistent with strategic considerations. While trying to *appear* under or overconfident does not necessarily imply that the person sending this signal actually feels this way, Trivers (1985) suggests that it is much easier for such a signal to be convincing if the sender believes it. An immediate question is therefore whether senders believe their own signals. Our results indeed seem to show that senders are unaware that they are inflating their signals. This suggest that subjects seem to believe their inflated reports (at least at a conscious level), so this in fact appears to reflect actual overconfidence.

We also propose that the use of overconfident statements extends to a larger set of environments than those in which it is directly useful for strategic reasons. This explanation relies upon the theoretical literature on bounded rationality. The starting assumption is that cognitive limitations prevent people from calculating optimal behavior in each and every situation. Instead, it is not unreasonable to conjecture that people make the same decisions in different situations that appear similar. This idea is presented in Myerson (1991) and further developed in formal models by Samuelson (2001) and Jehiel (2005). Myerson (1991) proposes that apparent suboptimal behavior can sometimes be understood by assuming that observed behavior is optimal in a related but more familiar environment, which he calls a *salient perturbation*. Relying on this insight, we claim that biases in statements and beliefs over one's ability can be explained as behavior that would be optimal in a related and familiar environment, but is not optimal in the actual environment.[2]

[2]Many examples can be given. When seated in a stationary train, one perceives and interprets the movement of another train as self-motion (Dichgans and Brandt, 1978). The link to Myerson's salient perturbations is clear: the real but unfamiliar situation (you are still, the world is moving) is automatically interpreted by drawing on the more familiar situation (you are moving, the world is still). Another example is when an American tourist in England looks to the left for traffic before crossing a street. Such behavior is optimal in the more familiar environment, where cars drive on the right.

Our results suggest that this process may be automatic and unconscious rather than a deliberate updating. Familiarity affects the degree of awareness, so behavior becomes automated in situations that occur very frequently. By contrast, unfamiliar environments are more likely to induce deliberate and reflective behavior. To illustrate, people drive automatically on a familiar route but have a heightened awareness of their environment when driving on an unfamiliar road. A more deliberate and reflective behavior is costly in terms of the attention that must be devoted to information processing, so the use of automatic processes can be explained as cost reduction.

The discipline imposed by the theory of salient perturbations is that the environment must satisfy three conditions. First, it has to be similar to the situation the individual is really facing (has to be a perturbation). Second (familiarity), the perturbation must be more familiar to the subject than the real situation. The degree of familiarity is measured by the frequency with which one faces a particular situation. Finally (optimality), the observed behavior must be optimal in the salient perturbation of the actual game.

Our strategy to find support for our claim about biases and beliefs is to set up an experiment where the three conditions for a salient perturbation (perturbation, familiarity and optimality) are satisfied, and then show that subjects' behavior conforms to our predictions. The perturbation condition requires that we use games that are similar. We do so by introducing games that differ in only one respect. The optimality condition requires us to provide evidence for two claims. First, we must show that overconfidence is indeed an equilibrium behavior in the game we use. We do so by presenting a formal analysis of the equilibrium in a simple model. This analysis is necessary but not sufficient: we must also show that individuals in a game where the equilibrium behavior requires stated overconfidence are also behaving as theory predicts.

For the familiarity condition, we suggest that environments where overconfidence is effective are widespread. We offer survey evidence that indicates that such environments are indeed familiar to the subjects in our experiments. We also provide an additional test, by introducing a game where the strategically optimal behavior is instead to under-report confidence. We then show that subjects do so when such behavior is effective. Furthermore, since such environments are much less familiar to the subjects (a fact also documented in our survey data), this response is more likely to be a reflective, thoughtful, deliberate response.

We now describe our experimental strategy and main findings. We first elicit confidence in one's relative ability on a cognitive task in a non-strategic situation. This allows us to detect stated overconfidence where one would expect that subjects (at least consciously) believe their reports. The mean level of stated confidence that one is in the top half of the group is 63.4, providing evidence consistent with overconfidence, or over-placement (Moore and Healy, 2008).[3] We then test whether reported confidence is sensitive to social saliency and to strategic considerations. We vary whether the sender's stated confidence is shown to a paired receiver and also whether the receiver must enter a tournament comparing the scores on the earlier cognition task, or has an available outside option. The sender is always entered in the tournament.

We find that the awareness that a mutually-anonymous person will observe one's stated confidence has no effect on the report made. To test whether strategic considerations affect reports, we implemented two strategic treatments.[4] In *Deter*, the sender prefers that the receiver does not enter the tournament. We show that in equilibrium, senders over-report to discourage receivers from entering the tournament. We find evidence that male, but not female, senders inflate stated confidence. In *Lure*, the sender always prefers that the receiver enters the tournament. Here we find evidence of under-reporting by both male and female senders, again consistent with the equilibrium of the game.

An interesting finding in *Deter* is that we also find an increase in reported confidence by male players in the role of receiver, even though in our game receivers have no strategic advantage from over-reporting. We interpret this as evidence that males over-report in this treatment, even without a direct benefit for doing so, because the situation looks familiar, and appearing confident is optimal in the familiar environment. Since there is no basis for this choice to be cognitive and

[3]In an environment of incomplete information, this is not per se conclusive evidence of overconfidence (Benoit and Dubra, 2011; Burks, Carpenter, Goette and Rustichini, 2013).

[4]Camerer and Lovallo (1999) also study entry decisions in a tournament in the context of overconfidence. In contrast to our experiment, participants in their experiment do not observe reported confidence levels of others, and there is no strategic reason to appear under- or overconfident.

conscious, this result suggests that male receivers are unaware that they are over-reporting, so that they effectively believe (on a conscious level) their own reports.

After we found that male receivers inflate in *Deter*, we conducted the *Lure* treatment, which has a double interest for our test of the theory. First, it provides a test of the idea that the confidence in the statements about one's skill follows strategic considerations, in the direction that is appropriate in the environment (which is not necessarily overconfidence). Second, this treatment has special interest because luring is a less familiar situation, and so we would expect that a more reflective type of behavior would be triggered as a result. Therefore, we did not expect to find that receivers in the *Lure* treatment would adjust their reported confidence in comparison to the baseline treatment, and the data show that indeed they do not.

In our experiment, receivers are very responsive to the reported confidence of the senders; they are highly likely to enter the tournament when their own stated confidence is higher than that of the paired sender, but highly unlikely to enter when the reverse is true.

Finally, females are less likely than males to enter the tournament in *Deter*, despite very similar performance levels. This effect is driven by confidence level in *Deter*, as there is no significant difference in entry rates when we control for confidence. In *Lure*, both the stated confidence levels and entry rates for males and females were almost the same. Neither case supports the notion that women shy away from competition (Gneezy, Niederle, and Rustichini, 2003; Niederle and Vesterlund, 2007).

The remainder of this paper is structured as follows. In section 2, we provide a review of the literature. We describe our hypotheses and our experimental design in section 3. We present our experimental results in section 4, and we discuss the motivation of biased confidence in section 5. We conclude in section 6.

2. Background and literature review

The idea of salient perturbations is consistent with some earlier experimental findings. Framing effects, for instance, can be understood by assuming that different descriptions of a task trigger different analogies. A prisoner's dilemma framed as the "Community Game"elicits much more cooperative behavior than if the very same game is framed as the “Wall St. Game”because the label “Wall Street”is associated with more competitive behavior and the label “Community”suggests sharing and cooperation (see Liberman et al., 2004). Likewise, cooperation with an anonymous stranger in a one-shot game can be explained with predictions from the theory of repeated games if the repeated game is the salient perturbation of the one-shot game.

Social psychology has long considered the issues of self-esteem, overconfidence, and self-deception: for example Baumeister (1998) provides an extensive review of the overconfidence phenomenon; and further evidence and discussion on the topic of self-esteem can be found in Leary, Tambor, Terdal, and Downs (1995) and Leary (1999), where image concerns lead to a selective demand for information. Berglas and Jones (1978) and Kolditz and Arkin (1982) also study how self-handicapping is related to social saliency: Kolditz and Arkin (1982) find that subjects take performance-impoverishing drugs after receiving positive feedback about their past performance when their choice of drugs is visible to the experimenter. However, when subjects choose whether or not to take the performance-impoverishing drugs in private, no subjects take them. This suggests that performance/confidence is a social signal.

Rabin and Schrag (1999) provide a model of confirmatory bias, where people misinterpret new information as supporting previously held views; in this model a confirmatory bias induces overconfidence. An agent may come to believe with near certainty in a false hypothesis, even though he or she receives an unlimited amount of information. Koszegi (2006) provides a formal economic model of overconfidence and ego utility, in which an agent derives internal benefits from positive views about his or her ability. The mechanism in this model is that each person receives an initial signal about own ability and can seek information if desired. Zábojník (2004) shows that, if acquiring information is costly, endogenous information seeking can result in systematically skewed beliefs about abilities even without ego utility concerns, if seeking for information is less costly for people that expect to have a low ability. A different approach is taken by Compte and Postlewaite (2004), who assume that a person’s confidence may affect the likelihood of success, and that distorted beliefs can be welfare enhancing. Van den Steen (2004) starts from the assumption that people have different priors, and shows that this can also result in overoptimism.

Moore and Healy (2008) provide a taxonomy of overconfidence into overestimation of one's own ability or performance (overestimation), overplacement of one's ability or performance relative to others (overplacement), and excessive confidence in the accuracy of one's beliefs (overprecision). They note that several studies find evidence of underestimation or underplacement, and that easy tasks tend to result in underestimation but overplacement, while hard tasks tend to result in overestimation but underplacement. They reconcile these findings by hypothesizing that people are imperfectly informed about performance, and especially about the performance of others. This results in regressive beliefs about own performance, and even more regressive beliefs about others' performance. Their experimental evidence provide support for this hypothesis, and is in line with the results of Hoelzl and Rustichini (2005).

A number of other recent papers examine overconfidence. The focus is typically on establishing over- confidence without considering the strategic value of appearing overconfident or underconfident and the response to confidence statements by others. In some recent experiments, participants receive information about the stated confidence of others (e.g., Vialle et al., 2011; Ewers, 2012), but they do not study if participants use this strategically: confidence levels were elicited before participants were told that their reported confidence would be shared with others.

Burks, Carpenter, Goette and Rustichini (2012), based on data in Burks et al. (2009), investigate whether concerns for self-image contribute to overconfidence and whether confidence judgments are consistent with Bayesian information processing starting from a common prior. They reject both hypotheses. Their results indicate that individuals with higher beliefs about their skills are more likely to demand information, rather than less likely. These results clearly reject self-image concerns as a mechanism that yields overconfident judgments, and are consistent with the hypothesis that overconfidence is a form of social signaling. Ewers and Zimmerman (2014) also find evidence of social image concerns. In their experiment, participants are more likely to make a confident statement if the statement is observed by others, compared to a situation in which their statement remains private. In both experimental designs there is no strategic environment that can affect confidence. In this paper we introduce the strategic environment explicitly, and study the strategic motivation underlying such signaling.

Other studies investigate a related question: Is overconfidence a result of biased information processing with regard to own skills? Mobius, Niederle, Niehaus, and Rosenblat (2011) study how subjects respond to noisy feedback about their performance in an IQ test, and find that subjects do not update sufficiently and also react more to positive feedback than to negative feedback. Ertac (2011) also finds a systematic bias in updating when participants receive feedback about their performance on an algebra and verbal test. By contrast, she finds no systematic bias in updating when the feedback is not related to performance but on some neutral task. The systematic mistakes on the performance related task tend to go against self-serving beliefs, as here people are more affected by bad news than by good, resulting in pessimistic beliefs. Eil and Rao (2011) find that people respond much more to positive feedback than to negative feedback about their intelligence or beauty. In a non-own-performance control treatment, updating and information acquisition were unbiased. In one of the treatments of our experiment, we also give imperfect feedback to participants about their performance, and find that they often make errors in their updating. When we present them with a task that has an identical statistical structure but which is not related to their performance, they rarely make updating errors.

Grossman and Owens (2012) study how one's beliefs about own performance (on a quiz) are affected by noisy, but unbiased feedback. In the main treatment, participants overestimate their own scores, believing that they have received unlucky feedback. However, this is driven not by biased information processing, but rather by overconfident priors. In a control treatment, each participant expresses beliefs about another participant's performance, with (on average) accurate posteriors. Even though feedback improves estimates about performance, this does not lead to improved estimates of relative performances. This result suggests that how people use performance feedback to update beliefs about own ability differs from how they update their beliefs about own performance, which may relate to the issue of why overconfidence persists.

3. Hypotheses and Experimental Design

3.1. **Model.** The key tool we use to test our hypotheses is a tournament game where players can send explicit statements on their ability. A simple model may illustrate this game. There are two players. One of them (the sender, player 1) sends a message about her ability. The other player (the receiver, player 2) then decides whether to enter a tournament with the sender. Players can have different types, reflecting different abilities relevant in the tournament. The type of player i, $\theta^i \in \Theta^i$, is chosen according to some probability distribution, and is private information to the player. To simplify the exposition we assume that the set of types has only two elements, $\Theta^i \equiv \{\theta^i_0, \theta^i_1\}$ with θ_1 of better quality than θ_0 and that the prior of players is that both types are equally likely to occur.

The sender moves first, and makes a claim about her ability by sending a message $t \in T = \Theta^1$. The message need not be truthful, but sending a false message has a lying cost $c > 0$. After observing the message, the receiver can choose an action from the set $\{In, Out\}$. If the receiver chooses Out, both players receive their outside option O^i. If the receiver chooses In, both players compete in a tournament, and their payoffs are determined by their abilities and are given by:

(1)

	θ^2_0	θ^2_1
θ^1_0	$0, 0$	b, a
θ^1_1	a, b	d, d

We focus on the case for which a player is better off if the opponent is weaker ($b \leq 0$, $d \leq a$) and if she herself is stronger ($a \geq 0, d \geq b$). To avoid trivial cases we assume $a \geq O^2 \geq d$, so that a strong receiver weakly prefers playing the tournament to the outside option if he knows that the sender is a weak type, but prefers the outside option if he knows that the sender is a strong type. We also assume that $d \geq 0$, implying that a weak receiver always weakly prefers to stay out (since $O^2 \geq d \geq 0 \geq b$).

This game reflects situations in which people can strategically manipulate how confident they appear to others. Under the assumptions made, a weak receiver will always opt out of the tournament, but for a strong receiver this choice will depend on his beliefs about the sender's type. The best strategy for the sender depends crucially on her outside option. If her outside option is high, she is better off when she does not have to compete with the receiver in the tournament. The sender can try to achieve this by appearing strong, i.e., over-report, to convince the receiver to opt out. On the other hand, if her outside option is low, she prefers that the receiver competes with her. In this case, the sender can try to achieve this by appearing weak, i.e., under-report. Indeed, both over- and under-reporting may occur in equilibrium (see Appendix B for details).[5]

In the experiment, we implemented two conditions. 1) In the Deter treatment, parameters are such that senders over-report in equilibrium (i.e., claim to be a higher type than they really are). 2) In the Lure treatment, senders under-report in equilibrium. While our experimental design accommodates both under and over-reporting, we argue (and provide survey evidence) that the luring environment is relatively rare. In our signaling game, if the payoff of players is higher if the opponent is a stronger type, only equilibria with over-reporting exist for reasonable parameters. *Mating* games are a prominent example of these games: players compete for mating with strong types. These games are very common in nature so that overconfidence can be expected to be advantageous more frequently than under-confidence. An example at the workplace that has the structure of a mating game is when an employee wants to convince co-workers that he or she is talented, so that he or she will be chosen to collaborate on a joint project.

3.2. **Hypotheses.** We now state our theoretical hypotheses.

H1: *Statements of confidence are typically social signals of intentions or private information, and individuals take them into account when they observe the self-evaluations of others. This is a first-order awareness of the social implications of self-confidence. Individuals may also anticipate this effect and adjust this signal accordingly, a second-order awareness.*

[5]Kartik (2009) also analyzes a sender-receiver game with lying costs. The game he analyzes has a different setup, so we cannot directly apply his results. He shows that in his setup senders almost always claim to be more confident than they really are, but the payoff structure differs from ours.

Thus in our experiment stated confidence levels will be affected in the direction predicted by the equilibrium in strategic environments, where the setting is explicit and the advantages are real and clear.

H2: *In our experiment, higher stated confidence levels will tend to discourage potential competitors from entering the tournament. Similarly, lower stated levels will encourage competitors to enter. So accurate reporting of confidence levels is not an optimal strategy, even taking into account the incentives for accurate reporting.*

Thus both stated overconfidence and underconfidence can be motivated by strategic considerations, and subjects behave according to the equilibrium predictions in both types of environment.

H3: *Overconfidence in statements that is useful in familiar competitive environments will extend to similar, but less familiar situations, and such stated overconfidence is likely to occur even when no one else is watching. For example, we will observe overconfidence in the baseline treatment where competition is absent.*

Thus we predict overconfidence even when one's confidence level is unknown to other participants, in spite of the incentives provided for stating beliefs truthfully. This extension will be smaller or even absent for stated underconfidence, because environments where stating underconfidence is optimal are less widely experienced.

In light of the evidence that males and females respond differently to competitive environments (see e.g., Gneezy and Rustichini, 2004; Gneezy et al., 2003; Niederle and Vesterlund, 2007), we also consider the possibility that confidence display differs across genders. We predict that males are more likely to enter the tournament than females, controlling for confidence.

H4: *Males will exhibit higher stated confidence levels and are more likely to enter the tournament than females, even after controlling for performance.*

3.3. **Experimental design.** Sessions were conducted in Amsterdam with 16 to 28 participants depending on the number of subjects showing up for the experimental session. Instructions were displayed on a computer screen and read aloud. Participants were told that their decisions would remain anonymous to the other people present unless explicitly indicated otherwise, and that they would receive their earnings in an envelope from a person in a different room who could only see login numbers and could not match these numbers to names or faces. Participants were paid for one task chosen at random.

We ran a total of 22 sessions with a total of 464 subjects; seven of Treatment 1 ($N = 144$), three of Treatment 2 ($N = 68$), seven of Treatment 3 (three with low outside option, $N = 60$, four with high, $N = 96$), and five of Treatment 4 ($N = 96$). All sessions were run in 2009 and 2010, with the exception of Treatment 4 which was run in 2012. Sessions lasted for 40 to 50 minutes, with an average payment of €14 (of which €7 was a show-up fee). Sessions ended with a questionnaire. Almost all participants (96 percent) were undergraduate students (average age 22 years, standard deviation 2.96; see Table 2 for details), with the majority studying economics or business; 44 percent of these subjects were female.

In every treatment, participants were randomly allocated to groups of four individuals. In each group, two players were randomly given the role of senders and the other two the role of receiver (in the instructions we always used neutral labels "A" and "B" for the two roles); each sender was randomly matched with one receiver. All participants received the same 15 questions taken from Raven's Advanced Progressive Matrices (APM), a measure of cognitive ability (Raven, 2000). Participants had eight minutes to answer as many questions as they could, and did not get any feedback after completion on the number of questions they answered correctly. The experimental instructions can be found in Appendix A. Payments were presented in points: One point was worth one euro. In the period in which the experiment was run €1 was worth approximately between \$1.30 and \$1.40. In the exposition below we translate points directly into euro, although the instructions were strictly in terms of points.

When taking the APM test, participants only knew that they would be asked to evaluate their performance later and that every sender would be matched to a receiver with a possibility for the player with the higher rank to earn 10 points, that is, €10. Upon completion, participants were informed about all the subsequent steps in the experiment. First, one was asked to indicate one's confidence of having a score in the top two of their group, on a probability scale from 0 percent to 100 percent. They received payment for accuracy according to a quadratic scoring rule; for a stated probability p (their report divided by 100), a subject was paid €10 times $1-(1-p)^2$ if he really was in the top 2, and €10 times $1-p^2$ if he was not. As can be seen in the instructions, we provided assurances that this mechanism favored accurate reporting for this part of the experiment.

Table 1 gives an overview of the different treatments. In the baseline treatment, no one could see the confidence of another player; each receiver could observe the reported confidence by the paired sender in the other treatments. In all treatments there was a possible tournament between the paired sender (S) and receiver (R). In Treatments 1-3, the player with higher rank received €10 and the other received nothing. Entry by both players was mandatory in Treatments 1 and 2, but each R faced a strategic decision in Treatments 3 and 4: After observing S's reported confidence, R chose whether or not to enter a tournament. In the low-outside-option version of Treatment 3, R received €3.5 by staying out, while in the high-outside-option version of Treatment 3, R received €5.5 for doing so.[6] In these treatments, S preferred that R opted out of the tournament since that would secure €10. In Treatment 4, if R chose not to enter, R received €5.5 and S received €10. If R chose to enter and won, then R received €10 and S received €15, while if R entered and S won, then R received 0 and S received €25; thus, S preferred that R enter the tournament. In Treatments 3 and 4 participants must trade off honest reporting against trying to influence the opponent's entry decision.

The description we have just given, including whether or not any player could see the reported confidence of others, or whether player R was given a choice between playing in or out, was common information and known to all subjects before they reported their confidence. They were also told, in all treatments, that they would find out at the end of the game who had the higher rank between

[6] We initially used an outside option of €3.5, but found that 28 of 30 receivers entered the tournament. We then switched to an outside option of €5.5.

the two matched S and R players, but would learn neither their rank in the group of four nor the number of questions answered correctly.

Table 1: *Overview of treatments*

Treatment	Receiver observes Sender's reported confidence?	Payoffs if receiver opts out of tournament (S, R)	Payoffs if receiver enters tournament (S, R)	
			Sender wins	Receiver wins
1: Baseline	No	N/A	(10,0)	(0,10)
2: Social	Yes	N/A	(10,0)	(0,10)
3a. Deter (low)	Yes	(10, 3.5)	(10,0)	(0,10)
3b. Deter (high)	Yes	(10, 5.5)	(10,0)	(0,10)
4. Lure	Yes	(10, 5.5)	(25,0)	(15,10)

Notes: S stands for Sender, R for Receiver.

Treatment 1 had some additional components in which we presented some updating tasks to participants. Since we will not describe the results of that part in much detail, we only briefly outline the experimental setup.[7] First, after reporting their confidence, participants were sent a report telling them if they were among the top 2 of their group or not. This report was not always correct, which was known to participants. After receiving the report, they were asked if the report was most likely to be correct or incorrect. We subsequently gave subjects an abstract scenario about two machines that produced rings that were faulty with some known probability. After telling them whether the ring was faulty, we asked participants from which machine the ring most likely came. The setup had an identical statistical structure to the updating task about their confidence, allowing us to compare updating errors when feedback is given about their ability and feedback in an abstract context. Both the report and the machine question were incentivized.

[7]A detailed description is available upon request.

4. Experimental Results

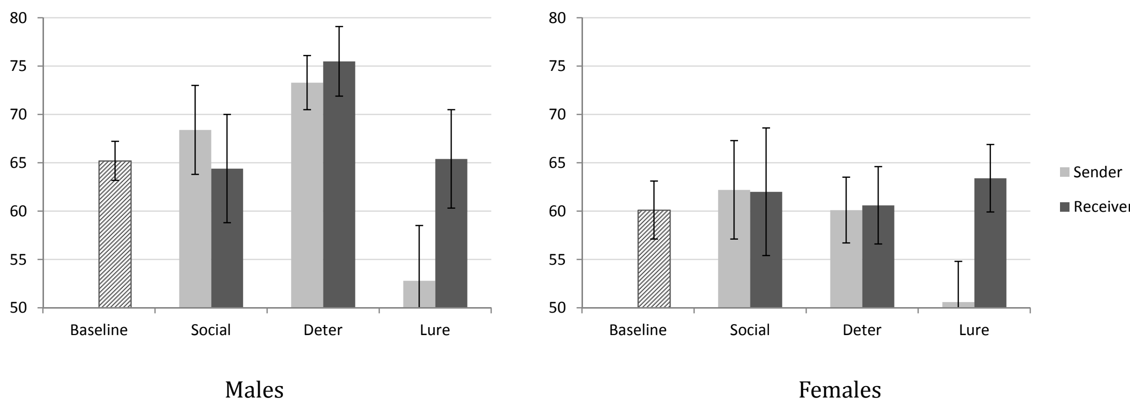
4.1. **Confidence.** Summary statistics are reported in Table 2. The distribution of correct answers (out of 15) is approximately normal, with mean 8.75 (8.78 for males and 8.71 for females). No more than 27 percent report a confidence level below 50 percent in any of our conditions; note however that the rate in the Lure treatment (27 percent) was nearly double that in the deterrence treatment (14 percent). In data pooled over the conditions, 71 percent of the people report a confidence level above 50 percent and only 20 percent report a confidence level below 50 percent; a binomial test finds this asymmetry to be highly significant ($Z = 17.00$, $p = 0.000$).

Table 2: *Summary statistics*

	Mean	Std. Error	Min.	Max.
Test				
Number correct answers	8.75	0.11	1	15
Confidence	63.75	1.02	0	100
Background characteristics				
Age	21.96	0.14	17	49
Number of siblings	1.48	0.05	0	7
Gender (fraction females)	0.44			
Member of sports club	0.49			
Took Raven test before	0.54			
Familiar with condition probs.	0.61			
Study category				
Economics/Business/Finance	0.58			
Social Sciences and Law	0.15			
Physics, Math, Computer science	0.07			
Other study or not student	0.20			
N	464			

Figure 1 shows the confidence of senders and receivers in each treatment by gender. We did not expect to find a difference in stated confidence between senders and receivers in the baseline treatment, since their roles do not differ in that treatment, and indeed we do not find any: the confidence of males is 65 in both roles, and that of female senders and receivers is respectively 60 and 62. We therefore pool the observations of senders and receivers in the baseline treatment.

FIGURE 1. **Confidence of senders and receivers, by gender and treatment.** Roles pooled in the baseline treatment. Error bars: +/- SE



Compared to the baseline treatment, male senders in the social treatment report three percentage points higher confidence, a difference that is not significant (WMW, $Z = -0.789$, $p = 0.430$, two tailed test).[8] They do however report significantly higher confidence in the deterrence treatments (73 percent, low and high outside option combined, $Z = -2.342$, $p = 0.019$) and significantly lower

[8]Note that Ewers and Zimmerman (2014) do find evidence that participants report higher confidence if the reports can be observed by an audience. Possibly, the effects are stronger in their study because participants could be identified by other participants, while in our experiment participants remain anonymous to each other. However, they also find no audience effect when that audience receives feedback about the participant's actual performance. That treatment is most similar to our setup, because in our setup the receiver also receives feedback, and learns whether or not the sender had a higher rank than the receiver.

confidence in the Lure treatment (53 percent, $Z = 2.007$, $p = 0.045$). Male *receivers* also report significantly higher confidence in the Deter treatments (76 percent, $Z = -2.949$, $p = 0.003$), while their reported confidence in the lure treatment is comparable to that of males in the baseline treatment (65 percent, $Z = -0.437$, $p = 0.662$). The reported confidence of females is not statistically different from that in the baseline treatment in any of the other treatments, except that female senders report a significantly lower confidence of 51 in the Lure treatment ($Z = 1.779$, $p = 0.075$, two-tailed test).

OLS estimates of the determinants of confidence are presented in Table 3; the baseline condition reflects male behavior in the baseline treatment (Treatment 1). Specification (1) shows that the number of correct answers is a strong predictor of confidence, adding about 3 percentage points for each correct answer; this result is robust over different specifications.

Since subjects were not told their number of correct answers, the effect of correct answers on stated confidence can only be based on an estimate of one's own relative ability. In addition, we find significantly lower stated confidence in the Lure treatment, although the effect of the strategic-Deter treatment is not quite significant. Specification (2) adds controls for the role of the participant (sender or receiver) and interaction terms for the treatment and role. Being a Sender has no effect by itself, nor is there a significant interaction effect with the Social and Deter treatments. However, there is a large interaction effect in the Lure treatment, indicating that the decrease in stated confidence is entirely due to senders; in fact, the coefficient on Lure is now actually positive, although not significant.

[Table 3 about here – See Appendix D for the tables with regressions]

We introduce a dummy for gender and interaction effects for gender and treatment in specification (3). The results are consistent with the picture of the nonparametric tests. We find a negative but insignificant direct gender effect. However, there is a significant treatment effect: Reported confidence increases by almost 10 percentage points in the Deter treatment. This effect is only present for males, as the coefficient of the interaction between Deter and Female shows a negative coefficient of about the same size as the treatment coefficient. On the other hand, there is no such difference by gender in the Lure treatment, indicating that both male and female senders deflate stated confidence. There is no significant difference for sender or with the interaction of either Deter or Lure and Sender, and none for the three-way interactions. Finally, specification (4) shows that people who indicated they were familiar with conditional probabilities are more confident, by more than four percentage points. This familiarity has a significant effect even accounting for the difference in the number of correct answers (9.10 with familiarity versus 8.20 without it).

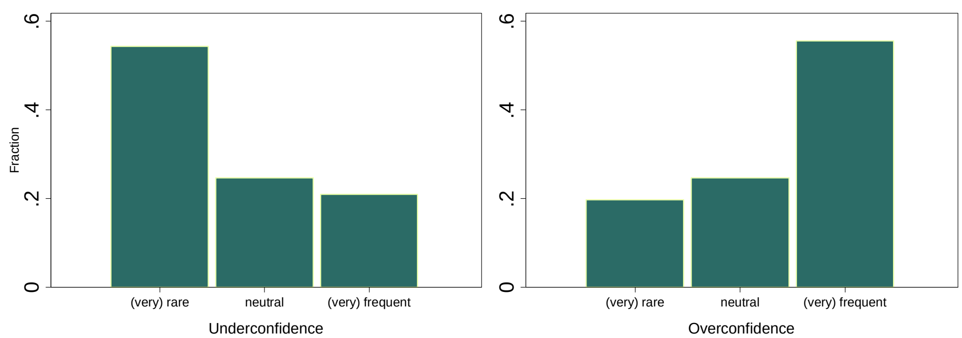
4.2. **Salient perturbations.** Male receivers in the Deter treatment inflate their confidence levels to about the same degree as the senders (the coefficient for the interaction variable Deter*Sender in Table 3 is small and insignificant). The receivers' inflated levels of stated confidence cannot deter senders from entry and is known to not even be observed, so this cannot reflect deliberate cognitive planning. It may instead reflect unconscious motivations generated by the competitive setting, so that people may not be flexible enough to adjust their behavior to their contingent role in the deterrence environment.

The receivers' behavior can be explained by assuming that the salient perturbation of the game is the game in which both players have a strategic value of deterring the other players. This explanation requires that situations in which it is beneficial to appear overconfident are familiar to participants, and that receivers would not adjust their stated confidence levels in an unfamiliar environment. The purpose of the Lure treatment was to test this prediction, on the presumption that situations in which it is beneficial to appear underconfident are unfamiliar. Receiver behavior is indeed consistent with this prediction.

The presumption that environments where it is beneficial to appear overconfident are more familiar than environments where it is beneficial to appear underconfident seems reasonable and is also supported by additional survey evidence that we collected after analyzing the other data. We asked a new set of participants to rate the familiarity of the two types of situations on a 5-point scale, ranging from very rarely to very frequently (82 participants, 49 percent female, recruited from the same subject pool as for the main experiment).[9] The results are reported in Figure 2. The

[9]These sessions were run in 2014. See Appendix C for more details.

FIGURE 2. **Perceived frequency of situations where appearing underconfident (left) or overconfident (right) can be effective.** The category "(very) rare" pools the answers "rare" and "very rare," and the category "(very) frequent" pools the answers "frequent" and "very frequent."



modal responses of the participants are that situations involving underconfidence happen rarely and that situations involving overconfidence are quite frequent. The hypothesis that the distributions are equal is rejected (Kolmogorov-Smirnov test, $D = 0.346$, $p < 0.001$). Thus, the results provide clear evidence that appearing overconfident is more familiar to our participants.

Results (Confidence)

(1) *The real performance of participants, measured by the (unknown to the participants) number of correct answers, significantly influences reported confidence in the expected directions. Those people who are familiar with conditional probabilities also report higher confidence, after controlling for correct answers.*

(2) *Men report a significant 10 percentage points higher confidence in the Deter treatment, even though it is only known after taking the test (but before the statement is given) that there will be strategic interaction. There is no significant treatment effect for women.*

(3) *There is also a significant treatment effect in the Lure treatment, as both male and female senders deflate their stated confidence by about 15 percentage points. However, receivers do not deflate stated confidence at all.*

(4) *The only case in which there is a difference in stated confidence between Senders and Receivers is the Lure treatment, where there is a difference for both males and females. In the Deter treatment, the similarity of the behavior of male players in the two roles may reflect an automatic response to competition on an unconscious level.*

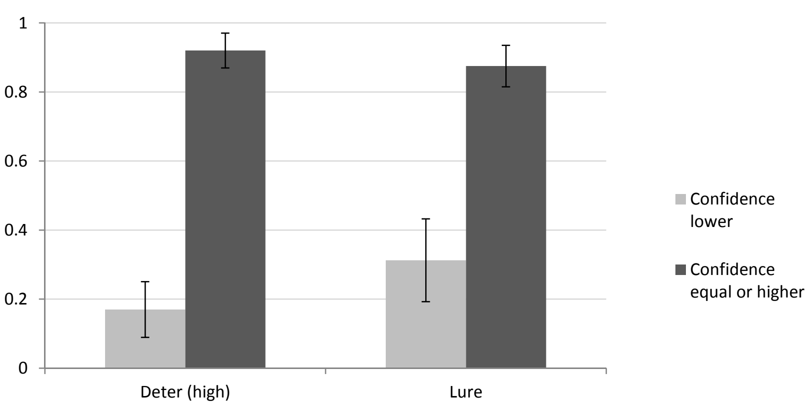
The confidence reports in the Deter and Lure treatments will be discussed again in the analysis of the strategic behavior of participants. Here we only mention that we cannot reject rational Bayesian updating using the Burks et al. (2013) allocation function. This may reflect our having only two intervals, either above or below the median.

4.3. **Voluntary tournament entry.** In the Deter and Lure treatments, player R chooses whether to enter a tournament with player S, who is automatically entered into the tournament. This result contrasts with the other treatments in which both people are automatically entered into the tournament: when entry is not automatic R can take into account S's reported confidence before deciding whether to enter the tournament. Player S in turn knew that player R would observe his statement (and player R knew this, etc., since the instructions were read aloud and so were known to be identical for all participants), and could potentially anticipate the effect of the statement on player R's decision. S does not observe R's statement, so this statement could not affect R's behavior. In light of this, what determines player R's choice?

Our data show that with the high outside option in the Deter treatment and in the Lure treatment, player R is much more likely to enter the tournament when own confidence is higher and when the opponent's confidence is lower.[10] Indeed, as is shown in Figure 3, we observe that relative confidence is a phenomenally good predictor of entry.

In the Deter case, 23 of 25 receivers (92.0%) enter when their confidence level is at least as large as the paired sender's reported confidence level, while only four of 23 receivers (17.4%) enter when their confidence level is lower than the paired sender's reported confidence level; the difference in these proportions is highly significant ($Z = 5.21$, $p = 0.000$). The corresponding data for the Lure treatment show that 28 of 32 (87.5%) choose to enter with higher stated confidence and five of 16 (31.2%) choose to enter with lower stated confidence; the difference in these proportions is highly significant ($Z = 3.96$, $p = 0.000$). Thus, there is strong potential for senders to influence the receiver's decision.

Figure 3. **Entry by lower confidence.** Error bars: +/- SE



[10]We focus primarily on entry with the high outside option, since 28 of 30 receivers chose entry with the low outside option, so that statistical tests have little power.

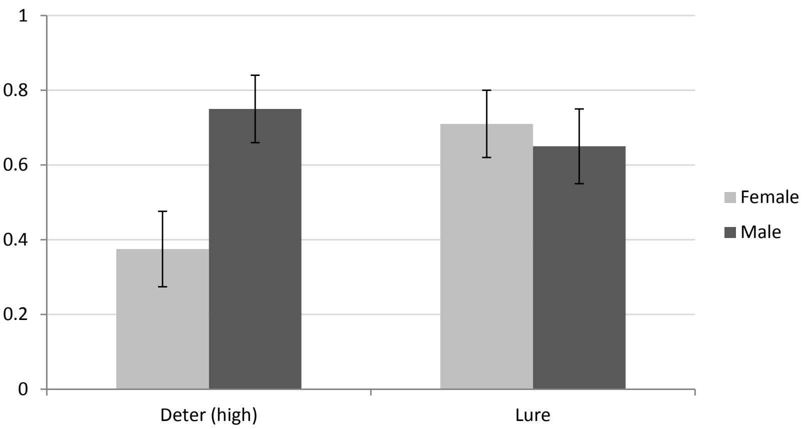
In the Deter treatment, we find that males enter twice as frequently as do females, 75.0 percent versus 37.5 percent ($Z = 2.62$, $p = 0.009$, two-tailed test), as is shown in Figure 4. However, this does not reflect a difference in performance: females in the R role in the high-option condition do nearly as well as males on the Raven test (the mean score for males is 9.12 and the mean score for females is 8.88; Wilcoxon ranksum test: $Z = 0.28$, $p = 0.779$, two-tailed test). At first glance, this seems to be evidence that females are *per se* averse to competition. However, female receivers state significantly lower confidence levels than do male receivers in this condition, 56.63 versus 75.83 ($Z = 3.07$, $p = 0.002$, two-tailed test). Men choose to compete more frequently, but this reflects a higher stated confidence level. This effect is only seen for people who choose to enter the tournament; the average stated confidence level for male entrants is 84.17 versus 69.89 for female entrants, while this comparison is 50.83 versus 48.67 for male non-entrants and female non-entrants, respectively.

The results are quite different in the Lure treatment, where the entry rate for males (65.22 percent) is lower than the entry rate for females (72.00 percent). Similarly, the average stated confidence level for male entrants is 73.87 versus 69.00 for female entrants, while the average stated confidence level for male non-entrants is 49.62 versus 49.00 for female non-entrants, so we can see that the stated confidence levels for receivers in the Lure treatment is largely unaffected by gender. The performance level was 8.82 for males and 8.56 for females, not significantly different (Wilcoxon ranksum test: $Z = 0.20$, $p = 0.843$, two-tailed test).

Table 4 reports the probit estimates of the decisions to enter the tournament.[11] The first three columns apply to the high outside-option sessions of the Deter treatment, and the last three columns apply to the Lure treatment. Specification (1) shows that own confidence increases the likelihood of entering the tournament, and the confidence of the opponent decreases it. Each variable substantially affects the probability of entering. Specification (2) includes a dummy variable that simply compares if own confidence is higher or lower than that of the opponent. Controls in (3) for gender, number of correct answers, and risk aversion have no significant effect. Thus, the lower likelihood of entry by females seems driven by lower confidence, rather than less competitiveness. This also

[11]Estimates from the Linear Probability Model are qualitatively very similar to the reported Probit marginal effects.

FIGURE 4. **Entry by gender.** Error bars: +/- SE



suggests that males are not just reporting higher confidence, but also feel more confident. If they were just reporting higher confidence without believing it, then, controlling for confidence, males should have been less likely to enter the tournament. The three specifications for the Lure treatment give similar results, with smaller magnitudes, but the coefficient for own confidence is not significant. Note that once again there is no evidence that women are *per se* less likely to enter.

Our analysis suggests that receivers follow a simple rule to make their entry decision, entering if and only if their own confidence is at least as high as the reported confidence of the sender. To test how precise this description is we check it against the data, and find that the rule correctly classifies 87.5% of the receivers' decisions in the Deter treatment (high outside option), and 81.25% in the Lure treatment. Moreover, most of the incorrectly classified decisions are close to the cutoff level. Hence, receivers appear to take the confidence statements at face value instead of deflating them in the Deter treatment or inflating them in the Lure treatment.

[Table 4 about here]

Results (Tournament Entry)

(1) *When deciding whether to enter the tournament, participants are more likely to enter when their confidence is higher; they are also sensitive to the confidence reported by the opponent: If own stated confidence is lower than that of the opponent, subjects are far less likely to enter.*

(2) *Females are less likely to enter the competition in the Deter treatment, but this effect is mainly due to the difference in confidence. Once we control for confidence, the entry rate of women is not significantly lower. There is no entry difference in the Lure treatment, regardless of whether or not we control for confidence.*

4.4. **Updating errors.** The additional parts in Treatment 1 allows us to test the hypothesis that the patterns of stated confidence that we observe are only due to errors in Bayesian updating. In that treatment, we gave feedback to participants about their rank in the group, but the feedback was not always correct. Participants were informed about the likelihood of receiving positive or negative feedback conditional on their actual rank. We then ask them to update their beliefs about being in the top 2. We also presented an abstract task with a similar statistical structure. Similar to Ertac (2011) and Eil and Rao (2011), we find that participants make much more updating errors with regard to their own ability than in the abstract updating task. For instance, after receiving negative feedback about their rank, many participants did not react strongly enough to the bad news, while others gave it too much weight.[12] Our results are in line with the other studies that find a difference in updating mistakes between performance and non-performance related tasks (Ertac, 2011; Eil and Rao, 2011).

[12]We should note, however, that these results may be biased by the way that we provided incentives to participants. The feedback was constructed in such a way that participants with a confidence above 2/3rds should respond differently to negative feedback than those with a confidence below 2/3rds. The use of the quadratic score rule to elicit confidence levels is only incentive compatible for risk-neutral subjects. Risk-averse subjects may therefore be misclassified, because they may have had a confidence above 2/3rds but report a confidence below 2/3rds. This may lead us to wrongly conclude that they made an updating error.

5. Self confidence and its motivations

What do these results tell us about the origin and motivation of overconfidence? One key potential motivation for being overconfident that has been suggested is the ego utility that one derives, producing an increase in self-esteem. In our data we observe substantial overconfidence even when it is known that the stated confidence level is not observed by the other player. This finding suggests that people are either poor judges of probabilities, or that they receive some internal benefit from this inflated belief, or that think they might influence others' behavior. The fact that people make far fewer updating errors on a neutral task than on a performance related task suggests that the explanation of this overconfidence is not simply poor ability to estimate probability of events.

Our results are consistent with our general hypothesis that views strategic concerns as a primary source of overconfidence. In fact we see strong evidence that an increase (decrease) in a sender's reported confidence can have deterrent (encouragement) value in terms of inducing the receiver into (or out of) the tournament. We also see some evidence (see Figure 1 and Table 3) that males report higher confidence in the strategic condition than in the baseline treatment. How close is this behavior to that which is optimal for senders? We take this up in the next subsection.

5.1. **Optimality of decisions.**

Behavior of receivers. We already saw that much of the behavior of receivers can be explained by the simple rule that a receiver enters if and only if his own confidence is at least as high as the reported confidence of the sender.

Optimal reporting. If we assume that receivers indeed play this strategy, and that senders anticipate this, we can analyze the best response of senders. We will model this by assuming that players have types, $\theta \in [0, 100]$, that are drawn from a continuous distribution function with density $f(\theta)$. We index players by $i = S, R$ (sender and receiver respectively). Players choose a message $t^i \in T = [0, 100]$, so that the message space is the same as the type space. The message of a player is his reported confidence, and the type is his true belief about his confidence. In our experiment a receiver has no incentives to report a confidence that differs from his type, so we assume $t^r = \theta^r$.

After observing t^s, receivers choose an action in the set $\{Out, In\}$. The assumed strategy of the receiver is then to play In if and only if $t^r \geq t^s$.

Let O^S be the sender's outside option payoff if the receiver chooses Out. If the receiver chooses In, the sender's payoff is v^h if he wins and v^l if he loses. The probability that the sender wins is $\Pi(\theta^s, \theta^r)$. We will specify precise functional forms of Π. The expected payoff for the sender of the tournament is then given by:

$$\int_0^{t^s} O^S dF(\theta^r) + \int_{t^s}^{100} (\Pi(\theta^s, \theta^r)(v^h - v^l) + v^l) dF(\theta^r). \tag{2}$$

The reason for reporting an inaccurate confidence level is to change the probability that the receiver chooses In. The optimal reported confidence for a risk-neutral sender is determined by:

$$f(t^s)[O^S - \Pi(\theta^s, t^s)(v^h - v^l) - v^l] = c(t^s - \theta^s). \tag{3}$$

The RHS reflects the fact that players have the incentive provided by the quadratic scoring rule to report truthfully, creating costs when their reported confidence differs from their true belief (where $c = 2/10,000$). In the Deter treatment, the term in brackets on the LHS is positive so that over-reporting is optimal ($O^S = v^h = 10, v^l = 0$), while in the Lure treatment this term is negative so that underreporting is optimal ($O^S = 10, v^h = 25, v^l = 15$).

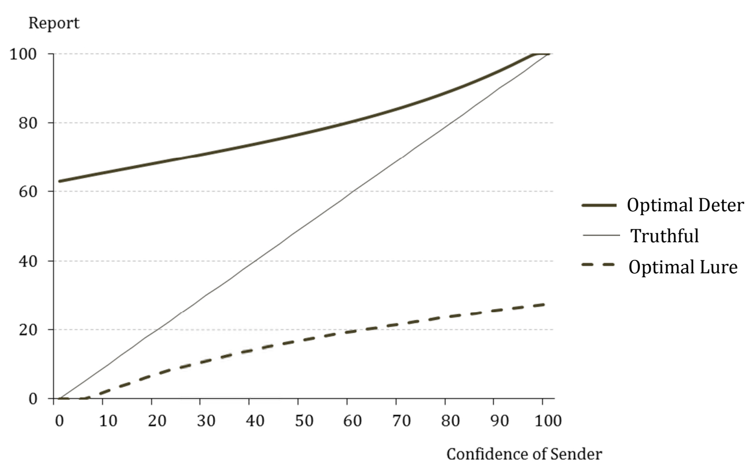
We specify

$$\Pi(\theta^s, \theta^r) = 1/(1 + e^{-\delta(\theta^s - \theta^r)}), \tag{4}$$

where $\delta = .021$ is estimated from the data of the baseline treatment in which there are no incentives to over-report. For $F(\theta)$, we assume that players believe that types are normally distributed (truncated at 0 and 100) with mean 50 and standard deviation 21. The value of the standard deviation is estimated from the data and we take a mean of 50 to reflect that players do not believe that other players are on average overconfident.

Figure 5 plots the optimal reporting for senders under the assumptions made. The thin solid line represents truthful reporting. The thick solid line represents the optimal report in the Deter treatment, and the dashed line for the Lure treatment. In both treatments it is optimal for senders to deviate substantially from their true belief. For instance, the optimal report for a sender with a confidence of 60 is 80 in the Deter treatment, and 20 in the Lure treatment. In both cases the optimal deviation from truthful reporting is substantially larger than what the data show. Based on reported confidence levels in the baseline treatment, we should expect that the average confidence is about 20 higher in the Deter treatment (we find roughly zero for females and 10 for males), and 45 lower in the Lure treatment (we find about 10-15 lower). We should also find no reported confidence below 60 in the deterrence treatment (because even for type 0 the optimal report is above 60), or above 30 in the Lure treatment (because even for type 100 the optimal report is below 30), but we see quite a few examples in the data.

Figure 5. **Optimal reporting by receivers given the behavior of senders.**



We conclude that the behavior of senders goes in the right direction, but not far enough.[13] The fact that they do not exactly match the estimated optimal levels for reports is not surprising. They must form expectations about several parameters, e.g., those related to the distribution of types, and they only play the game once.

Receivers, on their turn, appear to take the confidence statements at face value instead of deflating them in the Deter treatment or inflating them in the Lure treatment, as they simply seem to compare their own confidence to the reported confidence by the sender. This behavior is an indication that receivers also do not anticipate a level of over- and underinflating as high as our estimated optimal reports.

We close this section with two remarks. First, we have so far used informally the terms similar and familiar. The notion of similarity is intuitive, but can also be formalized (see, for example, Gilboa and Schmeidler, 1995). Regarding familiarity, this would appear to primarily relate to the frequency of this and similar experiences.

The second remark is that we are only able to measure statements of confidence and it a question of interest whether those people who make overconfident statements (or underconfident statements in the lure treatment) actually believe these statements. At least in the cases of the baseline treatment or the receiver role in the other treatments, there is no cognitive reason to misrepresent beliefs, so one might claim that people believe their reports. We suspect that senders in the Deter treatment also believe their statements, in the same manner as do the receivers. On the other hand, we speculate that senders in the Lure treatment, where we have argued that cognitive resources are engaged, do not believe their own statements of confidence. On a deeper level, if the subconscious mind is a player in the game, who is doing the believing? Projecting high self-confidence is easiest when one is also convinced of one's ability. Trivers [1985] points out that self-deception requires hiding the truth from yourself to hide it more deeply from others and suggests that this can be a useful strategy. So it is not completely clear who may be fooling whom.

[13]The exact magnitude depends on the assumptions we make. In particular, the distribution of types matters. We have also estimated optimal reporting for alternative distributions (assuming a different mean or a uniform instead of normal distribution) but the underinflating and deflating seems robust to different specifications.

6. Conclusion

Our experiments examined the determinants of self-confidence, and the degree to which it reflects strategic concerns about social image. Our main conclusion is that levels of stated confidence are likely to be influenced by strategic interest, perhaps unconsciously processed. We see evidence that people will inflate or deflate statements of confidence levels, in spite of the monetary incentive to provide them truthfully, when doing so is strategically beneficial. We suggest that inflating confidence when doing so is not strategically beneficial can be explained with the notion of salient perturbations. In familiar situations overconfidence quite often has strategic value so that we may also observe it in non-strategic environments that are similar to the familiar situation.

Our novel strategic environment (in which another party observes the stated confidence level of another and then chooses whether or not to enter a tournament with this other person) allows a direct test of the strategic-interest hypothesis. First, the social signal is perceived and has consequences: subjects in our experiment do respond to statements about confidence made by others, taking that information into account when choosing whether or not to enter. In the Deter treatment, male (but not female) participants on average report significantly higher confidence levels than in the non-strategic treatments. Inflated confidence serves as an effective deterrent. Interestingly, males (but not females) do so in both roles, even when deterrence is impossible; this suggests processing on an unconscious level.

In the less-familiar lure environment, we observe deflated confidence for both men and women in the role of senders, which serves to encourage entry. We argue that conscious cognition is present in this less-familiar environment, and indeed receivers do not deflate their own reports. Strategic deterrence and luring are consistent with the equilibrium we characterize; the degree to which one engages in costly strategic distortion depends on the values of the parameters in the game.

When inflated reported confidence is strategic, it is natural to find gender differences in our participants' behavior, given the evidence of other gender differences such as with respect to financial risk preferences (Charness and Gneezy 2010, 2012), competition (Gneezy, Niederle, and Rustichini

2003), and even shame (Ludwig and Thoma 2012). But since luring is a much less familiar environment and strategic distortion is presumably driven by cognitive ability (which is the same for men and women on the Raven test), we see men and women engaging equally in this behavior.

We also find no evidence that women shy away from competition. While men choose to enter a tournament much more frequently than women do in the Deter treatment, our regressions show no difference when one controls for confidence; there is no difference in entry rates or stated confidence in the Lure treatment. So women are not less competitive than men in our data.

There are a number of directions for future research. Two are most prominent, and concern the degree in which individuals are aware of the strategic implications of their signaling. Is some of the observed behavior truly unconscious? To what extent is self-deception present?

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Appendix A. Instructions

The comments in square brackets are meant to illustrate instructions to the reader and were not part of the instructions.

General instructions

Introduction Welcome to our experiment. You will receive €7 for showing up, regardless of the results. The instructions are simple. If you follow them carefully, you can earn a substantial amount of money in addition to your show up fee. Throughout the stages we will ask you to answer questions. At each stage, you will receive more detailed instructions.

You will be part of a group of 4 persons. You don't know who the other persons are, and you will remain anonymous to them. All your choices and the amount you will earn will remain confidential and anonymous, except if explicitly indicated otherwise. You will receive your earnings in an envelope. The person that puts the money in the envelopes can only see the login number that has randomly been assigned to you, and cannot match any names, student numbers, or faces with the login numbers and the decisions made.

Payments There are several items in the experiment for which you can earn points. At the end of the experiment, one item is randomly chosen and your points for that item are paid in addition to the show-up fee (1 point is worth € 1). One of the participants is randomly chosen to be an assistant during the experiment. There is a random component in the experiment. The task of the assisting person will be to throw a dice which will determine the outcome.

No deception Remember, we have a strict no deception policy in this lab.

Questions Please remain seated and raise your hand if you have any questions, and wait for the experimenter. Please remain silent throughout the experiment.

Part 1.
In the first stage, all group members receive the same 15 questions. You will see a matrix with one missing segment at the bottom right. Your task is to identify the segment that would logically fit at the position of the missing segment, by choosing from the suggested answers. You can make your choice by clicking the corresponding number on the right of your screen. [A screen shot with an example question was provided.]

You can go back and forth between the questions. There is a time limit of 8 minutes. The time remaining is indicated on your screen.

After the time limit, we will rank all 4 people in your group depending on the number of questions answered correctly. The person with the highest score will get rank 1, and the person with the lowest score will get rank 4. In case of ties, the computer will randomly determine who gets the higher rank. After this, you will get some questions regarding how well you think you did.

We then randomly divide the group in 2 players A and 2 players B. Every player A will be matched against a player B. If your rank is higher than the player with which you are matched, you can receive 10 points.

Part 2.
All four group members have now finished with the questions, and we have determined the rank of every person.

We now ask you to indicate how likely you think that you are among the top 2 of your group. You can indicate this on a scale from 0 to 100%. Indicating 0% means that you are sure you are not among the best 2 of your group, while indicating 100% means that you are sure you are among the top 2 of your group. Similarly, 50% indicates that you think it is equally likely that you are among the best 2 of your group, or that you are not among the best 2 of your group.

We will pay you for the accuracy of your estimate. You earn more points for this item if your estimate is more accurate. The formula that is used to calculate the amount of money you earn is chosen in such a way that your expected earnings are highest when you report to us what you really believe. Reporting any value that differs from what you believe decreases your expected score for this item. If you are interested, you can find some detailed examples of this to see how this works. [An explanation with examples was available to participants, see below.]

The role of player A and player B We matched you with one other randomly chosen person from your group. You are either Player A or B, and this is randomly determined.

[*baseline*] None of the players can see the other player's estimate of being in the top 2.

[*social*] Player A will not see the estimate by player B that he or she is among the best two in the group, but player B will see the estimate by Player A that he or she is among the best two of the group.

[*baseline and social*] Later on in the experiment, we will compare the rank of player A with the rank of player B, and for that item the player with the highest rank receives 10 points, the other nothing. Both of you will see who has the highest rank, and this ends the stage.

[*strategic deterrence and lure*] Player A will not see the estimate by player B that he or she is among the best two in the group, but player B will see the estimate by Player A that he or she is among the best two of the group.

Later on in the experiment, after player B has observed the estimate of player A, player B will choose between two options: IN or OUT.

If player B chooses OUT, then for that item player B receives 3.5 [5.5] points and player A automatically receives 10 points. Both players will see who has the highest rank, and this ends the stage.

[*deterrence*] If player B chooses IN, we will compare the rank of player A with the rank of player B, and for that item the player with the highest rank receives 10 points, the other nothing. Both of you will see who has the highest rank, and this ends the stage.

[*lure*] If player B chooses IN, we will compare the rank of player A with the rank of player B. For this item, Player A receives 25 points if (s)he is the highest ranked player, and 15 points if (s)he is not the highest ranked player. Player B receives 10 points if (s)he is the highest ranked player, and 0 points if (s)he is not the highest ranked player. Both of you will see who has the highest rank, and this ends the stage.

You can see what role you have on the top left of your screen (see the example below). [Participants could see their role on the next screen.]

Determination of your score What follows is a brief explanation about the determination of your score, showing that it is in your interest to report truthfully what you believe in order to maximize your expected earnings.

The score is determined as follows. You start with 10 points. We subtract points depending on how close your reported belief is to the outcome. The outcome is set to 1 if you are in the top 2, and to 0 if you are not.

For instance, if you report 70% (.7), and you are in the top 2 (outcome is 1), you are .3 away from the outcome, while if you are not in the top 2 (outcome is 0), you are .7 away from the outcome.

The difference with the outcome is squared and multiplied by 10, and then subtracted from the 10 points that you start with. Thus in the example with 70%: if you are in the top 2, this gives you $10 - 10(.3)^2 = 9.1$. If you are not in the top 2, this gives $10 - 10(.7)^2 = 5.1$. You would weight these two scores by your belief about the likelihood of each occurring.

Larger differences between your reports and the outcome decrease your score proportionally more than small differences. To minimize the expected difference, and maximize your expected score, you should report what you believe.

The following examples illustrate that your expected score is highest when you report your true beliefs. *All numbers used are for illustrations only and are no indication for the decisions for you to take.*

Example 1

You believe 50% and report 50%. As a simple example: if you believe there is a 50% chance you are in the top 2, and you report 50%, then there is always a difference of .5 with the outcome, and since this is squared we always subtract 10 times $(0.5)^2$ points from your score, i.e. 2.5 points. Your expected score is 7.5.

You believe 50% but you report 100%. If you report 100%, then in one case there is no difference (if you are in the top 2) and no points are subtracted. But in the other case the difference is 1 (if you are not in the top 2), and then we subtract 10 times $(1)^2$ from your score. If you believe the likelihood of being in the top 2 is 50%, you expect this to happen in 50% of the cases, so the amount subtracted would be $10(0.5) = 5$. This gives you an expected score of 5, which is lower than if you report your belief of 50%.

Example 2

You believe 70% and report 70%. As another example, suppose that you think there is a 70%

likelihood that you are among the best 2. If you report 70%, your score will be either 9.1 (if you are in the top 2) or 5.1 (if you are not in the top 2). You believe that with 70% chance your score will be 9.1, and with 30% your score will be 5.1. So your expected score is $0.7(9.1) + 0.3(5.1) = 7.9$.

You believe 70% and report 100%. Now suppose that, instead of reporting this belief of 70%, you report another number. For instance, you report 100% (1). This means that if you are in the top 2, the outcome is as predicted, and you get $10 - 10(0)^2 = 10$ points. If you're not in the top 2, you are 1 away from the outcome, and your score will be $10 - 10(1)^2 = 0$. Since you actually expect to be in the top 2 with 70% chance, your expected score is 7. This is lower than if you would have reported 70%.

You believe 70% and report 20%. The same is true if you report a number below your belief, for instance 20% (.2). If you are in the top 2, your score would be $10 - 10(0.8)^2 = 3.6$ points. If you're not in the top 2, your score will be $10 - 10(0.2)^2 = 9.6$. Since you actually expect to be in the top 2 with 70% chance, your expected score is $0.7(3.6) + 0.3(9.6) = 5.4$, again lower than if you would have reported 70%.

The table below shows the expected scores for some more possible beliefs you may have and reports you give. As you can see, expected scores are highest when the reported belief is equal to the true belief (the cells on the diagonal that are highlighted in green).

Expected scores

	Your Belief (%)										
Your report (%)	0	10	20	30	40	50	60	70	80	90	100
0	10	9	8	7	6	5	4	3	2	1	0
10	9.9	9.1	8.3	7.5	6.7	5.9	5.1	4.3	3.5	2.7	1.9
20	9.6	9	8.4	7.8	7.2	6.6	6	5.4	4.8	4.2	3.6
30	9.1	8.7	8.3	7.9	7.5	7.1	6.7	6.3	5.9	5.5	5.1
40	8.4	8.2	8	7.8	7.6	7.4	7.2	7	6.8	6.6	6.4
50	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
60	6.4	6.6	6.8	7	7.2	7.4	7.6	7.8	8	8.2	8.4
70	5.1	5.5	5.9	6.3	6.7	7.1	7.5	7.9	8.3	8.7	9.1
80	3.6	4.2	4.8	5.4	6	6.6	7.2	7.8	8.4	9	9.6
90	1.9	2.7	3.5	4.3	5.1	5.9	6.7	7.5	8.3	9.1	9.9
100	0	1	2	3	4	5	6	7	8	9	10

[*baseline*] **Part 3.**
Based on your true ranking in the group, we will send you a report. The report will say if you are among the two best of your group, or if you are not among the two best of your group.

However, *sometimes the report will be incorrect*. The way this works is as follows.

If you *are not* among the top two of your group, then the report will always be correct and inform you that you are not among the best two of your group.

If you *are* among the top two of your group, the report is mistaken in half of the cases. That is, in half of the cases, the report correctly informs you that you are among the top two of your group. In the other half of the cases, the report is incorrect and says you were not among the top two of your group, even if you were.

Whether or not the report you receive is correct when you are among the top two of your group, depends on the outcome of a dice throw by the assistant. You will not see the outcome, but if the assistant throws 1, 2, or 3, you will receive a correct report when you are among the top two. If the assistant throws 4, 5, or 6, you will receive an incorrect report when you are among the best two of your group. (For some groups, the incorrect report is sent after different values of the dice, but in any case the report is incorrect in half of the cases when you are among the best 2.)

After you see the report, we will ask you if you think the report is more likely to be correct or incorrect.

You earn 10 points if you are right.

[*baseline*] **Part 4**
In this part, we ask you some questions about the scenario below. The first part is always the same, but some additional information is given in the question, so please read it carefully. For this part, we randomly choose a question and this is treated as a single item.

Scenario Consider two machines placed in two sides of a large production hall, left side = L and right side = R. The two machines produce rings, good ones and bad ones. Each ring that comes from the left machine, L, has a 50% chance of being a good ring and a 50% chance of being a bad ring. Each ring that comes from the right machine, R, is good. Both machines produce 100 rings every day.

The mechanic visits the production hall every day, and randomly examines one of the machines by taking one ring. On some days, he takes a ring from the left machine, and the other days he takes a ring from the right machine. Suppose the ring he takes is *good*.

We will ask you if it is more likely that the mechanic went to the left or right machine.

Example question 'On 50% of the days, the mechanic takes a ring from the left machine, and the other 50% of the days from the right machine. Of the rings that come from the left machine, on average half are good and half are bad. Each ring that comes from the right machine is good.

Imagine the ring he takes is good. Is it more likely to come from the left or right machine?'

You will get 3 questions like this one. We vary the percentage of days that the mechanic goes to the left or right machine, but everything else remains the same.

You earn 10 points if you are right.

Part 5.

[*baseline and social*] In this part, you are informed if player A or B has the highest rank.

[*strategic deterrence and lure*] Player A will not see the estimate by player B that he or she is among the best two in the group.

Player B will see the estimate by Player A that he or she is among the best two of the group, and then gets the choice between two options: IN or OUT.

[We repeated the instructions of Part 2 in which the payoffs were given for this item].

Appendix B. Model

In this appendix we characterize the equilibrium set of the signaling game described in section 3.1. We characterize the set of equilibria, and prove the following properties of equilibrium behavior in the games used in our experiment: (i) In the Deter treatment, where the sender has a relatively high outside option, he will over-report to appear strong and deter the receiver from entering the tournament, (ii) In the Lure treatment, where the sender has a relatively low outside option, he will underreport to appear weak and encourage the receiver to enter the tournament.

We start with repeating the payoff structure and introducing some notation and definitions. We then analyze the equilibrium set when the payoffs are symmetric, as in the Deter treatment. After establishing in section B.2 the conditions under which any type of equilibrium may occur (pooling, separating, partial separating), we summarize in section B.3 the entire characterization of the equilibrium set (see Theorem B.9). In section B.4 we compute the predictions of the model for the payoff used in the experiment. We first (section B.4) use the parameters adopted in the deterrence treatment of our experiment to show that over-reporting is part of the equilibrium in that treatment. We then (section B.4) do the same for the Lure treatment: we extend the analysis to asymmetric payoffs and then show that underreporting is equilibrium behavior with the parameters of the Lure treatment. The final section B.5 presents the intuitive reason for the existence of the deterrence and lure equilibrium. A reader who does not want to follow the computational detail can get a good idea of the argument from the two sections B.3 and B.5.

B.1. **Preliminaries.** Recall that θ^i_j denotes player $i \in \{1,2\}$ of type $j \in \{0,1\}$. The sender is indexed as player 1 and the receiver as player 2. A weak player is indexed as 0, a strong player as 1. We assume that the payoffs of players are symmetric as in the following payoff table:

(5)

	θ^2_0	θ^2_1
θ^1_0	$0, 0$	b, a
θ^1_1	a, b	d, d

This is the case for the Deter treatment. We will return later to the Lure treatment which has asymmetric payoffs. We consider:

$$a \geq O^2 \geq d \geq 0 \geq b, \tag{6}$$

where O^2 is player 2's outside option. This implies that Out strictly dominates In for a weak player 2. Strategies of player 1 are functions from type to probability on signals: $\sigma^1(\theta^1;\cdot) \in \Delta(T)$. Strategies of player 2 are functions from type and signal of player 1 to probability on actions: $\sigma^2(\theta^2, t;\cdot) \in \Delta(\{In, Out\}))$. To lighten notation we call in the following $\sigma(\theta^2_1, t_0; In) = r, \sigma(\theta^2_1, t_1; In) = s$, where t_0 and t_1 are the low and high message respectively.

We now make precise what we mean by over- and underreporting.

Definition B.1. ***(Over- and underreporting)*** *We call an equilibrium in our game underreporting if:*

$$\sigma^1(\theta^1_0; t_0) = 1; \sigma^1(\theta^1_1; t_0) \equiv \tau \in (0,1). \tag{7}$$

that is if the low type only reports a low type, and the high type reports a low type with positive probability. We call an equilibrium over-reporting equilibrium if:

$$\sigma^1(\theta^1_1; t_1) = 1; \sigma^1(\theta^1_0; t_1) \equiv \sigma \in (0,1). \tag{8}$$

B.2. **Types of equilibria.**

B.2.1. *Monotonic equilibria.* We first examine monotonic equilibria, i.e., those where the function $\theta^1 \to \sigma^1$ is increasing (higher types give higher signal). We then show that non-monotonic equilibria do not exist. In our simple model an equilibrium is monotonic if:

$$\sigma^1(\theta_1^1; t_1) \geq \sigma^1(\theta_0^1; t_1) \tag{9}$$

and we say it is strictly monotonic if the inequality (9) is strict.

The equilibrium set is easily characterized if we take into account the following. Take the $(\sigma, \tau) \in [0,1]^2$ pairs describing as in (7) and (8) the strategy of player 1.

Lemma B.2. *If (6) holds, then for generic payoffs the only monotonic equilibria are either the fully revealing truthful, or the two pooling (at the low and high type respectively) or the under or over-reporting equilibria.*

Proof. Suppose that an equilibrium exists with $(\sigma, \tau) \in (0,1)^2$. This implies that the two signals are indifferent for both types of player 1. This is equivalent to

$$(s - r)(b - O^1) = (r - s)(d - O^1) = 2c$$

which can only hold if $s \neq r$ and which in turn implies

$$O^1 = (b + d)/2. \tag{10}$$

So except for non-generic cases in which the equality (10) holds, there is no equilibrium where $(\sigma, \tau) \in (0,1)^2$, so equilibria are on the boundary of the unit square. Monotonicity requires $1 - \tau \geq \sigma$, which excludes the strategies with $\sigma + \tau > 1$ (such as the "reverse fully revealing" equilibrium $(\sigma, \tau) = (1,1)$). So we have either one of the three residual corners of the square, or a point in the two sides $\{0\} \times (0,1)$ (under-reporting equilibria) and $(0,1) \times \{0\}$ (over-reporting equilibria). □

B.2.2. *Fully pooling and fully separating equilibria.*

Lemma B.3. *If (6) holds a fully revealing equilibrium exists if and only if:*

$$2c \geq \max\{O^1 - b, d - O^1\} \tag{11}$$

Proof. Suppose that player 1 is following the truthful strategy. At the best response of player 2, he chooses Out when he is low type for any signal, and when of high type chooses In if and only if the signal is t_0, because:

$$m(\theta_0^1 | t_0) = 1, m(\theta_0^1 | t_1) = 0,$$

where $m(\cdot, t)$ denotes the posterior belief upon observing message t. So the best response of 2 to the truthful strategy of player 1 has $r = 1, s = 0$. To determine the set of parameters for which the fully revealing strategy of player 1 is part of an equilibrium we determine now when this strategy is a best response to $r = 1, s = 0$. With this strategy of 2, type θ_0^1 prefers t_0 to t_1 if and only if $2c \geq O^1 - b$; and type θ_1^1 prefers t_1 to t_0 if and only if $2c \geq d - O^1$. These conditions are equivalent to (11). □

As intuitively clear this equilibrium exists for all costs large enough. For the high signal pooling we have (if we ignore the case $(a + d)/2 = O^2$):

Lemma B.4. *If (6) holds a pooling equilibrium at the high signal exists if and only if either:*

$$(a + d)/2 < O^2 \text{ and } O^1 - b \geq \max\{2c, d - O^1\} \tag{12}$$

or:

$$(a+d)/2 > O^2 \text{ and } b - O^1 \geq \max\{2c, O^1 - d\} \tag{13}$$

Proof. Take a pooling equilibrium at the high signal. The best response of player 2 is determined by r and s given the posterior belief at t. Note that $m(\theta_0^1|t_1) = 1/2$, and we can take $m(\theta_0^1|t_0) \in [0,1]$ since the event t_0 has probability zero in this equilibrium. At the best response given these posteriors,

$$r \in [0,1] \text{ and } s \in sign(\frac{1}{2} - \frac{O^2 - d}{a - d}), \tag{14}$$

(where the *sign* correspondence is 1, 0 at positive and negative values, and the unit interval at 0.)

Consider now the best response of player 1 to such pairs (r, s). The condition that t_1 is preferred to t_0 by both types of player 1 is equivalent to

$$(s - r)(b - O^1) \geq 2c \geq (r - s)(d - O^1). \tag{15}$$

Thus, a pooling equilibrium at high type exists if and only if there is a pair (r, s) that satisfies both (14) and (15). We consider the two cases.

(1) If $(a + d)/2 < O^2$ then $s = 0$ and (15) is now equivalent to $r(O^1 - b) \geq 2c \geq r(d - O^1)$ which is equivalent to (12);
(2) If $(a + d)/2 > O^2$ then $s = 1$ and (15) is now equivalent to $(1 - r)(b - O^1) \geq 2c \geq (1 - r)(O^1 - d)$ which is equivalent to (13).

□

For the low signal pooling we have:

Lemma B.5. *If (6) holds a pooling equilibrium at the low signal exists if and only if either:*

$$O^2 \leq (a+d)/2 \text{ and } d - O^1 \geq \max\{2c, O^1 - b\} \tag{16}$$

or:

$$O^2 \geq (a+d)/2 \text{ and } O^1 - d \geq \max\{2c, b - O^1\} \tag{17}$$

Proof. With r, s denoting as usual the probability that the high type Player 2 chooses In at t_0 and t_1 respectively, an equilibrium pooling on the low type exists if and only if with $r \in sign((a+d)/2 - O^2)$, $s \in [0,1]$ the inequality

$$(r - s)(d - O^1) \geq 2c \geq (s - r)(b - O^1)$$

holds. These hold if and only if (16) or (17) holds. □

In the following we can then focus on the under and over reporting equilibria; remember that we have excluded by definition the fully pooling or fully separating equilibria from this set.

B.2.3. *Under-reporting equilibria.*

Lemma B.6. *An under-reporting equilibrium exists if and only if the inequalities in 6 and*

$$d - O^1 \geq \max\{2c, O^1 - b\} \tag{18}$$

for player 1 and

$$O^2 \geq (a+d)/2 \tag{19}$$

for player 2 hold.

Proof. We already know that at all equilibria, player 2 chooses Out at θ_0^2 irrespective of the signal. We check whether an equilibrium exists with $\tau \in (0,1]$. At θ_1^2 with such a strategy of player 1, player 2 chooses In at t in a best response if and only if the posterior $m(\theta_0^1|t) \geq \frac{O^2-d}{a-d}$. This is never the case if the signal is t_1, and it holds at t_0 when $\frac{1}{1+\tau} \geq \frac{O^2-d}{a-d}$. So the strategy of player 2 has only one indeterminate value $r \equiv \sigma(\theta_1^2, t_0; In)$ and we know that $r \in sign(\frac{1}{1+\tau} - \frac{O^2-d}{a-d})$.

Our last step is to check when the best response of player 1 to such strategy has the under-reporting form, with $\tau \in (0,1]$. Since as we have seen player 2 exits at t_1, choosing t_1 gives $O^1 - c$ to the type θ_0^1 and gives O^1 to the type θ_1^1. For a given r, t_0 is better than t_1 for type θ_0^1 if $O^1-c < (1-(r/2))O^1+(r/2)b$, and t^1 is indifferent to t_0 for type θ_1^1 if $O^1 = (1-(r/2))O^1+(r/2)d-c$. These two conditions are satisfied if for some $r \in (0,1)$:

$$r(d - O^1) = 2c > r(O^1 - b)$$

which is equivalent to the additional condition (18). □

The equilibrium is based on the fact that player 1 may be willing to pay the cost of signaling t_0 to lure player 2 in the tournament to get the payoff d; the gain is $(r/2)(d - O^1)$ and is equal to the cost c. Player 2 at θ_1^2 may choose In at the low signal t_0 because may get the high payoff a from θ_0^1 or the lower payoff d from θ_1^1, but overall this is the same as the Out payoff O^2.

B.2.4. *Over-reporting equilibria.* A similar analysis yields:

Lemma B.7. *An over-reporting equilibrium exists if and only if the inequalities in 6 and*

$$O^1 - b \geq \max\{2c, d - O^1\} \tag{20}$$

for player 1 and

$$O^2 \leq (a + d)/2 \tag{21}$$

for player 2 hold.

Proof. In this case at equilibrium $\sigma^1(\theta_1^1; t_1) = 1$, and $\sigma^1(\theta_0^1; t_1) \equiv \sigma$. The posterior beliefs are $m(\theta_0^1|t_0) = 1$ and $m(\theta_0^1|t_1) = \frac{\sigma}{1+\sigma}$. Player 2 weakly prefers In to Out if and only if $\frac{\sigma}{1+\sigma} \geq \frac{O^2-d}{a-d}$, which is equivalent to $\sigma = \frac{O^2-d}{a-O^2} = 1/\tau$. His strategy is to choose Out at θ_0^2 and $\sigma^2(\theta_1^2, t_0; In) = 1; \sigma^2(\theta_1^2, t_1; In) = s$. The variables determining the equilibrium are s and σ; s is constrained to:

$$s \in sign(\frac{\sigma}{1+\sigma} - \frac{O^2 - d}{a - O^2}),$$

and σ is determined by the best response of player 1. He prefers t_1 to t_0 at θ_1^1 and is indifferent between t_1 and t_0 at θ_0^1 if for some $s \in (0,1)$, $2c > (1-s)(d - O^1)$ and $2c = (1-s)(O^1 - b)$. Together these conditions are equivalent to (20) above. □

To complete the full characterization of the equilibrium set, we examine non-monotonic equilibria.

Lemma B.8. *Non-monotonic equilibria do not exist.*

Proof. An equilibrium is non-monotonic only if $\sigma(\theta_1^1; t_1) < \sigma(\theta_0^1; t_1)$, i.e., if $1 - \tau < \sigma$. It is easy to see that the fully revealing non-monotonic equilibrium (both players 1 are always dishonest) does not exist. In that case, $\tau = \sigma = 1$. In that case, a strong player 2 chooses Out after t_0 and In after t_1. It is easy to verify that player 1 does not deviate at θ_0^1 if $O^1 \leq b - 2c$, and does not deviate at θ_1^1 if $O^1 \geq d + 2c$. This requires $d + 2c \leq b - 2c$ which is incompatible with $b \leq d$ for any $c > 0$.

Consider next the case with $\tau \in (0,1)$ and $\sigma = 1$. A strong player 2 chooses Out following t_0 as this can now only come from a strong player 1. If player 1 is indifferent between t_0 and t_1 after θ_1^1, and prefers t_1 after θ_0^1, we must have:

$$s(b - O^1) \geq 2c = s(O^1 - d),$$

but these can never be simultaneously satisfied for $d \geq b$ and $c > 0$. Intuitively, indifference by a strong player 1 requires that he is willing to incur costs c to encourage a strong player 2 to choose Out. This requires that he values the outside option more than competing with a strong player 2, so $O^1 > d$. But then a weak player 1 must surely also like player 2 to choose Out, since for him the payoff from competing with a strong player 2 is even worse: $b < d$, and would then deviate to t_0.

Consider next the case with $\tau \in 1$ and $\sigma \in (0,1)$. A strong player 2 chooses In following t_1 as this can now only come from a weak player 1. If player 1 is indifferent after θ_0^1 and prefers t_0 after θ_1^1, we must have:

$$r(O^1 - d) \geq 2c = r(b - O^1),$$

but this can never be satisfied for $d \geq b$ and $c > 0$. Intuitively, if even a weak player 1 is willing to pay a cost to encourage a strong player 2 to choose In, then a strong player 1 also prefers the strong player 2 to choose In and would deviate to t_1. □

B.3. **Summary.** We can summarize the previous sections characterizing the equilibria. A verbal description of the equilibrium set may be helpful. When the cost of lying is high compared to the other payoffs, the only equilibrium is the fully revealing. With smaller lying cost, the equilibrium correspondence separates into two branches, under and over reporting respectively, depending on whether $(d + b)/2 \geq O^1$ (in which case we have the under-reporting branch, see equation (23)) or the opposite holds. The behavior in these two branches is similar. In the under-reporting, when $O^2 \geq (a + d)/2$ we have a truly under-reporting equilibrium, where the high type reports the low type with positive probability. When O^2 is smaller, the equilibrium becomes a pooling equilibrium. The behavior of the over-reporting branch is similar. Figure 6 describes the type of equilibrium for different values of the parameters.

The following theorem gives a complete characterization of the equilibrium.

Theorem B.9. *For generic payoffs, in the interesting case $a \geq O^2 \geq d \geq 0 \geq b$,*

(a) ***(Fully revealing truthful branch)****: There is a fully revealing equilibrium if*

$$2c \geq \max\{O^1 - b, d - O^1\} \tag{22}$$

(b) ***(Under-reporting branch)****: There is an under-reporting equilibrium if and only if:*

$$d - O^1 \geq \max\{2c, O^1 - b\} \tag{23}$$

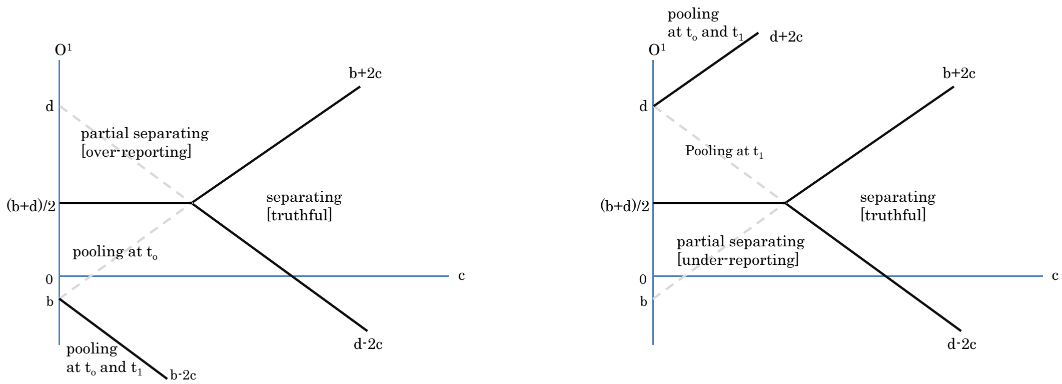
$$O^2 \geq (a + d)/2 \tag{24}$$

with strategies $\sigma^1(\theta_0^1; t_0) = 1, \sigma^1(\theta_1^1; t_0) = \tau = \frac{a - O^2}{a - d}$ and

$$\sigma^2(\theta_1^2, t_0; In) = r = \frac{2c}{d - O^1}, \sigma^2(\theta_1^2, t_1; In) = s = 0.$$

There is a pooling equilibrium at the low signal if (i) condition (23) holds and $O^2 \leq (a + d)/2$, sustained by $\sigma^2(\theta_1^2, t_0; In) = 1, \sigma^2(\theta_1^2, t_1; In) = 0$, or (ii) condition (24) holds and $O^1 - d \geq \max\{2c, b - O^1\}$ sustained by $\sigma^2(\theta_1^2, t_0; In) = 0, \sigma^2(\theta_1^2, t_1; In) = 1$.

FIGURE 6. **Equilibrium set and parameter values.** The figure describes the type of equilibrium for values of the outside option O^1 and the lying cost c. The left panel reports the case where $O^2 < (a+d)/2$; the right panel reports the case where $O^2 > (a+d)/2$.



(c) ***(Over-reporting branch)****: There is an over-reporting equilibrium if and only if:*

(25) $$O^1 - b \geq \max\{2c, d - O^1\}$$

and

(26) $$O^2 \leq (a+d)/2$$

with strategies $\sigma^1(\theta_0^1, t_1) = \sigma = \frac{O^2-d}{a-d}, \sigma^1(\theta_1^1, t_0) = 0$ *and*

$$\sigma^2(\theta_1^2, t_0; In) = r = 1; \sigma^2(\theta_1^2, t_1; In) = s = 1 - \frac{2c}{O^1 - b}.$$

There is a pooling equilibrium at the high signal if (i) condition (25) holds and $O^2 \geq (a+d)/2$*, sustained by* $\sigma^2(\theta_1^2, t_0; In) = 1, \sigma^2(\theta_1^2, t_1; In) = 0$*, or (ii) condition (26) holds and* $b - O^1 \geq \max\{2c, O^1 - d\}$ *sustained by* $\sigma^2(\theta_1^2, t_0; In) = 0, \sigma^2(\theta_1^2, t_1; In) = 1$.

Remark B.10. *Note that some of the pooling equilibria are counterintuitive: they are sustained by the belief that a strong player 2 chooses Out after the low signal but In after the high signal. While these types of pooling equilibria are Perfect Bayesian Equilibria, it is easy to show that they do not survive equilibrium refinements such as "D1" (Cho and Kreps, 1987).*

B.4. **The experimental design.** We finally consider a game which is closer to the one used in our experimental sessions.

The strategic Deter treatment. In the strategic Deter treatment payoffs were symmetric, so the analysis of above applies. Specifically, if we subtract 5 from all payoffs, and make use of the fact that ties are broken by random assignment of the *win* outcome, the payoffs were:

(27)

	θ_0^2	θ_1^2
θ_0^1	$0, 0$	$-5, 5$
θ_1^1	$5, -5$	$0, 0$

and outside options $O^1 = 5$ for player 1 and $O^2 = 0.5$ for player 2 in the treatment with the high outside option. This is the case $O^1 - b = 10 \geq \max\{2c, d - O^1\} = 2c$ because $d - O^1 = -5$, and $(a+d)/2 = 2.5 > O^2 = 0.5$, hence (provided costs c are sufficiently low) we are in the over reporting branch (see theorem B.9).[14]

The Lure treatment. In the Lure treatment the payoffs from entering the tournament were not symmetric, and we represent them as follows:

$$\begin{array}{c|cc} & \theta_0^2 & \theta_1^2 \\ \hline \theta_0^1 & e,d & g,f \\ \theta_1^1 & a,b & e,d \end{array} \tag{28}$$

where $a = 25, b = 0, d = 5, e = 20, f = 10, g = 15$, and $O^1 = 10, O^2 = 5.5$ (again using the fact that ties are broken by random assignment of the *win* outcome). Note that

$$\text{for all } \theta, O^1 < v^1(\theta); f > O^2 > d > b \tag{29}$$

We look for equilibria of the under-reporting form, as in lemma (B.6).

Lemma B.11. *An under-reporting equilibrium of the game with tournament payoffs (28) exists if (29) and*

$$e - O^1 \geq 2c \tag{30}$$

hold.

The proof is a simple computation.

B.5. **Deterrence and luring equilibria.** The intuition for the strategic deterrence equilibrium is clear, and has been presented in the section B.3. For the lure equilibrium, note that player 2 of the low type prefers *Out* to *In* irrespective of what outcome he is expecting in the tournament. The high type will choose *In* if he gives enough weight to the event that he is facing a low type. At a monotonic under-reporting equilibrium the high signal t_1 reveals that the type is high, so player 1 of low type will not incur the cost of lying when by doing so he could only tempt player 2 to choose *Out*. The high type player 1 may be made indifferent between telling the truth and thus forcing player 2 out, or luring him by stating the low type, paying the cost, and getting with enough probability to reap the benefit of a match with a high type player 2. He can be made indifferent between these two options when the extra gain from luring the receiver (the quantity $r(e - O^1)$) can be made at least equal to the cost $2c$, for some r the probability that the high type player 2 plays *In* after a low signal. This is what condition (30) insures.

[14] In the Deter treatment with the low outside option for player 2 the corresponding payoff was $O^2 = -1.5$. Note that in this case $a \geq d \geq 0 \geq O^2 \geq b$ so that condition (6) is not satisfied. It is easy to show, however, that the results are qualitatively similar in this case. With the payoffs in the experiment, we would be in the case with pooling at the high signal, a limit case of overreporting.

Appendix C. Survey: Design and results

We recruited 82 participants from the same database that we used for the main experiment. None of the participants participated in any of the previous sessions. There were 5 sessions with between 12 and 22 participants. 40 out of 82 participants were female, and the mean age was 22. Participants received a flat fee of 10, and each session took about 30 minutes.

Participants received the instructions on their screen. The survey consisted of eight questions in total (see below). In the first four questions, we asked participants to list situations in which appearing over or underconfident could be effective. The purpose of these questions was to make them realize how easy/hard it was to think of any such situations. Our main questions of interest were questions five and six, in which we asked them how frequently they find themselves in situations where appearing under or overconfident can be effective.

We reversed the order of questions between participants: half of them received the questions about underconfidence first, the other half received the questions about overconfidence first.

They could answer questions 5-8 on a five point scale (ranging from very rarely to very frequently) and we gave them the option to answer the question with "don't know." The distribution of answers is reported in Table C1. The full instructions and questions are provided below.

Table C1: Distribution of responses (percentages)

Question	1	2	3	4	5	Don't know
Appearing overconfident is effective (Q5)	4.88	14.63	24.39	50.00	4.88	1.22
Appearing underconfident is effective (Q6)	21.95	31.71	24.39	17.07	3.66	1.22
Others appear overconfident (Q7)	1.22	14.63	23.17	45.12	9.76	6.10
Others appear underconfident (Q8)	12.20	30.49	21.95	23.17	7.32	4.88

Notes: Answers are on a scale from 1 (very rarely) to 5 (very frequently).

Instructions and questions Thank you for your participation in this short experiment. It takes about 20-30 minutes to complete, and you will earn 10 for your participation. Talking is not permitted and we ask you to make sure that your cell phone is turned off completely. Please raise your hand if you have any questions. The experiment consists of a short survey. You are not matched to any other participant and your earnings do not depend on the answers that you (or anyone else) give.

Please answer the questions to the best of your ability. Your answers will be treated confidentially.

The questions that follow are about situations in which you interact with one or more other persons.

[version for participants with even numbers]

Question 1) Can you briefly describe situations (real or hypothetical) in which you think it might be useful to appear to others more confident about your ability to succeed in an activity or at a task than you really are? You can list as many different situations as you like, up to a maximum of ten situations. You can, for instance, think of situations in the domains of sports, school, work, or social life, amongst others.

Question 2) For each of the situations you just described under Question 1, have you found it to be effective to appear more confident than you were? Or if the situation you described was hypothetical, do you think it would be effective?

Question 3) Can you briefly describe situations (real or hypothetical) in which you think it might be useful to appear to others less confident about your ability to succeed in an activity or at a task than you really are? You can list as many different situations as you like, up to a maximum of ten situations. You can, for instance, think of situations in the domains of sports, school, work, or social life, amongst others.

Question 4) For each of the situations you just described under Question 3, have you found it to be effective to appear less confident than you were? Or if the situation you described was hypothetical, do you think it would be effective? We will now ask you some questions about how frequently you find yourself in different types of situations. You can indicate your answer on a 5-point scale, ranging from 1 (very rarely) to 5 (very frequently). There is also an option not to give an answer in case you do not know the answer.

Question 5) How frequently do you find yourself in situations where it could be effective to appear to others more confident about your ability to succeed in an activity or at a task than you really are?

Question 6) How frequently do you find yourself in situations where it could be effective to appear to others less confident about your ability to succeed in an activity or at a task than you really are?

Question 7) How frequently do you find yourself in situations where someone else appeared to you to be more confident about his or her ability to succeed in an activity or at a task than (s)he should have been?

Question 8) How frequently do you find yourself in situations where someone else appeared to you to be less confident about his or her ability to succeed in an activity or at a task than (s)he should have been?

What is your age?

What is your gender (male or female)?

What is your field of study?

Thank you for your participation in this experiment. Please remain seated until your table number is called. If your table number is called, please bring the card with your table number with you and you will receive your payment.

Appendix D. Regression Tables

Table 3: *Determinants of confidence* (scale 0 – 100)

Dependent var. : *Confidence*	(1)	(2)	(3)	(4)
Number of correct answers	3.50***	3.52***	3.52***	3.32***
	(0.39)	(0.39)	(0.38)	(0.40)
Social	0.29	0.05	0.08	-1.74
	(2.94)	(4.15)	(4.07)	(4.12)
Deter (low and high)	3.54	3.06	9.21**	9.26**
	(2.31)	(3.25)	(4.02)	(4.07)
Lure	-5.55**	1.06	0.57	1.06
	(2.64)	(3.70)	(4.77)	(4.79)
Sender		0.26	0.65	1.02
		(3.31)	(3.27)	(3.26)
Social × Sender		0.47	0.16	1.82
		(5.88)	(5.77)	(5.82)
Deter × Sender		0.96	-0.00	-0.57
		(4.59)	(5.43)	(5.48)
Lure × Sender		-13.21**	-13.21**	-15.18**
		(5.24)	(6.47)	(6.46)
Female			-3.06	-2.57
			(2.76)	(2.78)
Deter × Female			-11.00**	-12.30**
			(5.20)	(5.24)
Deter × Sender × Female			-0.71	-0.58
			(6.26)	(6.31)
Lure × Female			1.96	-0.04
			(6.27)	(6.28)
Lure × Sender × Female			-1.00	0.51
			(7.97)	(8.04)
Familiar with conditional probs.				4.46**
				(1.93)
Constant	33.05***	32.78***	33.76***	31.54***
	(3.75)	(4.16)	(4.22)	(8.97)
Observations	464	464	464	462
R-squared	0.17	0.19	0.23	0.26
Adj. R-squared	0.16	0.18	0.21	0.23

Notes: OLS estimates. Other control variables in model (4) are: familiarity with Raven test, study category, age, number of siblings, birth order, member of sports club, entity theory question. Standard errors in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Table 4: *Determinants of entering*

Dependent var: *choice is In*	Deter (high outside option)			Lure		
	(1)	(2)	(3)	(4)	(5)	(6)
Own confidence	0.044***	0.015**	0.014*	0.012***	0.007	0.008
	(0.012)	(0.007)	(0.008)	(0.004)	(0.005)	(0.005)
Opponent's confidence	-0.029***			-0.005		
	(0.010)			(0.003)		
Confidence is lower‡		-0.619***	-0.621***		-0.412**	-0.414**
		(0.138)	(0.141)		(0.181)	(0.190)
Female			-0.096			0.040
			(0.203)			(0.149)
Number correct answers			-0.019			0.016
			(0.042)			(0.046)
Risk aversion†			-0.030			0.044
			(0.080)			(0.044)
Observations	48	48	48	48	48	48
Pseudo R-squared	0.59	0.56	0.57	0.26	0.30	0.32

Notes: Probit estimates, reporting marginal effects. ‡Lower confidence is equal to 1 if receiver's confidence is lower than the paired sender's, and 0 otherwise.†Eight missing observations were replaced by the mean in model (3). St. err. in parentheses. *** p<0.01, ** p<0.05, * p<0.1