

Duersch, Peter; Oechssler, Jörg; Schipper, Burkhard C.

**Working Paper**

## Incentives for subjects in internet experiments

Working Paper, No. 08-1

**Provided in Cooperation with:**

University of California Davis, Department of Economics

*Suggested Citation:* Duersch, Peter; Oechssler, Jörg; Schipper, Burkhard C. (2008) : Incentives for subjects in internet experiments, Working Paper, No. 08-1, University of California, Department of Economics, Davis, CA

This Version is available at:

<https://hdl.handle.net/10419/31382>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# Incentives for Subjects in Internet Experiments\*

Peter Duersch<sup>§</sup>      Jörg Oechssler<sup>§,†</sup>      Burkhard C. Schipper<sup>‡</sup>

February 21, 2008

## Abstract

Internet experiments are a new and convenient way for reaching a large subject pool. Yet, providing incentives to subjects can be a tricky design issue. One cost-effective and simple method is the publication of a *high score* (as in computer games). We test whether a high score provides adequate and non-distortionary incentives by comparing it to the usual performance based incentives. We find significant differences and conclude that high scores are not always appropriate as an incentive device. Performance based financial incentives seem to be required also in internet experiments.

**JEL codes:** C72; C91; C92; D43; L13.

**Keywords:** incentives, experiments; internet, high score.

---

\*Financial support by the DFG through SFB 504 is gratefully acknowledged.

<sup>§</sup>Department of Economics, University of Heidelberg, Grabengasse 14, 69117 Heidelberg, Germany, email: oechssler@uni-hd.de; <sup>‡</sup>Department of Economics, University of California, Davis, One Shields Avenue, Davis, CA 95616, USA.

<sup>†</sup>Corresponding author.

# 1 Introduction

Experiments on the internet have become more and more frequent in recent years.<sup>1</sup> Using the internet has some obvious advantages. It is a relatively inexpensive way of reaching many subjects. It allows to broaden the subjects pool beyond the standard undergraduate student population. In addition, decision making at one's own PC at home or in the office is arguably a more natural setting than that in the laboratory. It resembles an environment that is familiar to many people, e.g. from home banking.

However, experimenting on the internet also poses a number of new challenges. In this note we will focus on one such problem, namely the way incentives are provided to subjects. In experimental economics, standard procedures require that subjects receive adequate incentives. Although usually those incentives are provided through cash payments, other incentives are being used (e.g. grades, lottery tickets for non-cash prizes, etc.). For obvious reasons, the distribution of cash is difficult and/or expensive in large-scale internet experiments. Furthermore, often an experimenter wants to collect data anonymously, which can nicely be done via the internet. Yet, to preserve anonymity one does not want pay subjects directly because such payment requires knowing the subject's identity (e.g. name plus postal address or the bank account number). It would thus be desirable if other incentives schemes could be found that would provide adequate incentives but would not distort results.

We consider here one such incentive scheme that is well known from computer games (or for the older of us, from pinball machines), the high score. The high score is simply a list of top performers (i.e. usually their initials or nicknames) with their associated score or payoff. The idea is that subjects are inherently motivated to achieve a top placement on this list. If this were true, the high score would be a very cost-effective and simple way

---

<sup>1</sup>For experiments that have been conducted over the internet, see e.g., Forsythe et al. (1992, 1999), Lucking-Reiley (1999), Shavit et al. (2001), Bosch-Domenech et al. (2002), Güth et al. (2003), Bossaerts and Plott (2004) and Drehmann et al. (2005, 2007). Greiner et al. (2002), Anderhub et al. (2001), and Charness et al. (2007) contain detailed discussions of methodological issues.

of providing incentives to subjects in internet experiments.

We test the hypothesis that a high score provides adequate and non-distortionary incentives by comparing subjects' behavior in an internet experiment with behavior of subjects in a laboratory where we provide various forms of incentives. Incentives in the lab range from the usual performance pay over fixed payments to no payment at all. All incentive schemes in the lab are supplemented through a high score.

Our main findings are that results obtained with a high score differ significantly from those obtained with the usual cash incentives. This holds independently of whether the experiment is run on the internet or in the laboratory.

## 2 Experimental design

More than 700 subjects participated in a simple experiment with the structure of a Cournot duopoly. Table 1 provides a summary of the four experimental treatments.<sup>2</sup> The bulk of the experiment was conducted as an internet experiment (setting *net*). In *net*, subjects played on the internet, in a location of their own choice (home, office etc.), and at their own pace. The only incentives for subject was the chance to be listed on a *high score* table, which publicly displayed on our webpage the score and the chosen nickname of each player.<sup>3</sup>

Additionally, there were three different laboratory experiments with various forms of monetary incentives, which were designed to bridge the gap between *net* and a standard laboratory experiment. Closest to *net* was setting *lab-np*, in which subjects played in the laboratory but without any monetary incentives.<sup>4</sup> As in *net*, the only incentive was the high score table. Thus, the only difference between the two treatments was the environment, that is, laboratory versus subjects' homes or offices. Next in line was setting

---

<sup>2</sup>See the online appendix for more details about the experimental design, instructions, and screen shots.

<sup>3</sup>For some subjects getting the top-spot on a high score table presents substantial incentives. For at least one subject the incentive was so great that he or she invested sufficient time to hack our system, and tried to manipulate the high score table.

<sup>4</sup>Subjects in *lab-np* were first year students taking part in a campus tour.

*lab-f*, in which additional to the high score table, subjects received a *fixed* payment of 10 euros as soon as they entered the lab.<sup>5</sup> Finally, setting *lab* was the usual laboratory experiment in which subjects were paid according to the sum of their profits. A high score table was displayed in addition. The instructions for all settings were the same up to the incentive structure. At the end of the experiment, we asked subjects to fill in a questionnaire with some demographic data.<sup>6</sup>

Table 1: Summary of experimental treatments

treatment	setting	incentives	# of subjects
<i>net</i>	internet	high score	550
<i>lab-np</i>	laboratory	high score	55
<i>lab-f</i>	laboratory	high score + fixed payment	50
<i>lab</i>	laboratory	high score + performance pay	50

The game played in the experiment was a standard symmetric Cournot duopoly with linear inverse demand function  $\max\{109 - Q, 0\}$  and constant marginal cost of 1. Each player's quantity  $q_i$ ,  $i = 1, 2$  was an element of the discrete set of actions  $\{0, 1, \dots, 109, 110\}$ . Player  $i$ 's profit function was given by

$$\pi(q_i, q_{-i}) := (\max\{109 - q_i - q_{-i}, 0\} - 1) q_i. \quad (1)$$

Given this payoff function, it is straightforward to compute the Nash equilibrium, which is at  $q_1 = q_2 = 36$ . Subjects played the Cournot duopoly repeatedly for 40 rounds with the same opponent. Each subject was matched against a computer that was programmed to one of a number of standard learning algorithms. Subjects were told that they play against a computer but they received no further information about the algorithm. Computers were programmed to play according to noisy versions of one of the following decision rules: Best-response, fictitious play, imitate the best, reinforcement

<sup>5</sup>In principle, subjects could have left the lab after receiving the 10 euros but no one did.

<sup>6</sup>Subjects were able to repeat the experiment (see Duersch et al., 2008). However, for the current paper we only use data from the first round in order to eliminate any learning effects.

learning or trial & error.<sup>7</sup>

### 3 Results

Table 2 summarizes the main variables of interest, namely mean quantities of subjects and the average of their total profits. Note first that there are no significant differences for either quantities or profits between *net*, *lab-np*, and *lab-f* at any conventional level of significance of a two-sided Mann-Whitney U test. The average quantities in *net*, *lab-np*, and *lab-f* are almost the same at about 48 whereas in *lab* average quantity is only 43.14.<sup>8</sup> All pairwise difference between *net*, *lab-np*, and *lab-f* on the one hand and *lab* on the other hand are significant at the 1% level. For *lab*, we also find higher total profits than in all three other treatments although this difference is not significant (see however the regression results below where we find a significant difference).

Table 2: Summary statistics

treatment	quantities (std. deviations)	profits (std. deviations)
<i>net</i>	48.69 (10.76)	40,283.4 (16,894.1)
<i>lab-np</i>	48.85 (12.09)	40,579.9 (16,955.0)
<i>lab-f</i>	48.21 (10.56)	39,856.4 (16,806.3)
<i>lab</i>	43.14 (7.42)	44,632.6 (13,480.4)

Note: “Quantities” are averages over subjects and rounds. “Profits” are the mean of total profits across subjects. Standard deviations in parentheses.

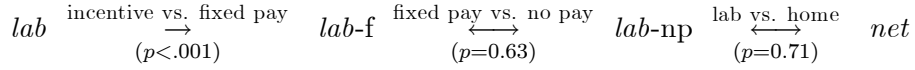
Confirming findings by Anderhub et al. (2001) and Shavit et al. (2001), variances on the *net* are higher than in *lab* (F-test,  $p < 0.05$ ) for both, quantities and profits. However, this also seems to be driven by incentives as variances in *lab-np* and *lab-f* are not significantly different from those in *net*.

The differences in mean quantities between *lab* and *net* can be summa-

<sup>7</sup>See our companion paper for details about the learning processes (Duersch et al. 2008).

<sup>8</sup>In a different context, Shavit et al. (2001) find that bids in a lottery evaluation task are significantly higher on the internet than in a classroom experiment.

rized as follows.<sup>9</sup>



The first arrow indicates a significant increase in quantities between *lab* and *lab-f*. The next two arrows indicate that there are no significant differences at any conventional level between *lab-f*, *lab-np*, and *net*. We conclude that the difference between *lab* and *net* is primarily driven by the lack of monetary incentives in *net* and probably less so by the environment of the decision maker (internet vs. laboratory).<sup>10</sup> Most importantly, given that even in the laboratory, there are substantial and highly significant differences in average quantities between *lab* and *lab-f*, we can reject the hypothesis that a high score provides adequate and non-distortionary incentives for all decision tasks.

For a more detailed look at the data, we ran OLS regressions to explain average quantities of subjects and average total profits (see Table 3). Confirming the MWU-tests above, Table 3 shows that average quantities in *lab* are significantly lower than in *net* (at the 1% level). But now also average profits are significantly higher in *net*. Again, there is no significant difference for average quantities or profits between *net*, *lab-f*, and *lab-np*. These effects are robust to inclusion of the learning algorithms the subjects were matched against and the starting values of the computer. Interestingly, female subjects tend to choose lower quantities. Finally, it is reassuring that subjects with some training in economics and researchers obtained significantly higher profits.

## 4 Conclusion

Our experiment provides some methodological lessons with respect to internet experiments. The option of providing incentives through a high score

---

<sup>9</sup>The  $p$ -values shown in parentheses refer to subjects' mean quantities using a two-sided Mann-Whitney U test, treating each subject as one observation.

<sup>10</sup>For the latter conclusion to hold, we make the (probably not too implausible) assumption that the marginal effect of providing monetary incentives is the same in the laboratory and on the internet.

Table 3: OLS regressions

	dependent variable:			
	avg. quantity		avg. total profit	
<i>lab</i>	-4.68***	(1.69)	4594**	(1941)
<i>lab-f</i>	-1.00	(2.87)	893	(3299)
<i>lab-np</i>	-1.62	(2.82)	-1249	(3251)
economics	-1.49	(1.00)	3375***	(1147)
game theory	-2.10*	(1.18)	-461	(1358)
researcher	-1.63	(1.41)	3332**	(1615)
female	-2.57***	(0.92)	-484	(1056)
best reply	3.30***	(1.22)	10261***	(1405)
fictitious play	-2.45**	(1.21)	8960***	(1397)
imitation	-1.98	(1.25)	-22280***	(1433)
trial & error	1.00	(1.25)	3558**	(1432)
start 35	-0.17	(1.03)	1816	(1181)
start 45	-0.99	(1.14)	-842	(1309)
constant	70.45***	(11.33)	26258**	(13017)
Observations	705		705	
adj. $R^2$	0.07		0.49	

Note: \*\*\* significant at 1%-level; \*\* significant at 5%-level; \* significant at 10%-level; Standard errors in parentheses. Explanatory variables are dummies for the experimental setting (*lab*, *lab-f*, *lab-np*) with *net* the default, dummies for whether subjects had any training in economics or game theory, dummy for subjects who are researchers, dummies for female subjects, and dummies for the learning algorithm (best reply, fictitious play, imitation, trial & error, with reinforcement as default), and dummies for the starting value of the computer (35 or 45 with 40 as default).



table seems attractive since it is inexpensive and reduces the organizational burden on the experimenter. However, we show in this experiment that results obtained with a high score differ significantly from those obtained with the usual cash incentives. This holds independently of whether the experiment is run on the internet or in the laboratory. For future (internet) experiments, we would thus suggest the use of significant and performance based financial incentives.<sup>11</sup>

## References

- [1] Anderhub, V., Müller, R., and Schmidt, C. (2001), “Design and evaluation of an economic experiment via the Internet”, *Journal of Economic Behavior & Organization*, 46, 227-247.
- [2] Charness, G., Haruvy, E., Sonsino, D. (2007), “Social distance and reciprocity: the internet vs. the laboratory”, *Journal of Economic Behavior and Organization*, 63, 88-103.
- [3] Drehmann, M., Oechssler, J. and Roider, A. (2005). “Herding and contrarian behavior in financial markets”, *American Economic Review*, 95(5), 1403-1426.
- [4] Drehmann, M., Oechssler, J. and Roider, A. (2007). “Herding with and without payoff externalities — an internet experiment”, *International Journal of Industrial Organization* 25, 391–415.
- [5] Duersch, P., Kolb, A., Oechssler, J., and Schipper, B. (2008), “Rage Against the Machines: How Subjects Play Against Learning Algorithms”, mimeo, University of Heidelberg.
- [6] Forsythe, R., Nelson, F., Neumann, G.R., Wright, J., (1992), “Anatomy of an experimental political stock market”, *American Economic Review* 82, 1142–1161.

---

<sup>11</sup>A recent internet experiment by Oechssler et al. (2008) shows that there are also significant differences between incentives through cash payments for each subject and through a lottery scheme with large cash prizes even if both schemes are equivalent with respect to expected value.

- [7] Forsythe, R., Rietz, T.A., Ross, T.W. (1999), “Wishes, expectations and actions: a survey on price formation in election stock markets”, *Journal of Economic Behavior and Organization* 39, 83–110.
- [8] Greiner, B., Jacobsen, H.-A., Schmidt, C. (2002), “The virtual laboratory infrastructure for online economic experiments”, in: Kremer, K., Macho, V. (eds.), *Forschung und Wissenschaftliches Rechnen 2002: Beiträge zum Heinz-Billing-Preis*. Gesellschaft für Wissenschaftliche Datenverarbeitung, Göttingen, 59–73.
- [9] Güth, W., Schmidt, C., Sutter, M. (2003), “Fairness in the mail and opportunism on the internet—a newspaper experiment on ultimatum bargaining”, *German Economic Review* 4 (2), 243–265.
- [10] Lucking-Reiley, D. (1999), “Using field experiments to test equivalence between auction formats: magic on the internet”, *American Economic Review* 89 (5), 1063–1080.
- [11] Oechssler, J., Roider, A., and Schmitz, P. (2008), “Economic decision-making and emotional cooling-off in negotiations”, mimeo, University of Heidelberg.
- [12] Shavit, T., Sonsion, D., and Benzion, U. (2001), “A comparative study of lottery-evaluation in class and on the Web”, *Journal of Economic Psychology*, 22, 483–491.

## Appendix (not intended for publication)

### A Details of the experimental design

The action space for all computer types was  $\{0, 1, \dots, 109\}$ . All computer types require an exogenously set choice for the first round as they can only condition on past behavior of subjects. Starting quantities in net were 35, 40, and 45, which were switched automatically every 50 subjects in order to collect approximately the same number of observations for each starting quantity. Starting quantities of computers in the laboratory were always 40.

Recruitment was done by email, newsgroups, and a University of Bonn student magazine. In setting lab, subjects played in the Bonn Laboratory for Experimental Economics. Incentives were provided by paying subjects immediately at the end of the experiment the sum of profits over all rounds according to an exchange rate of 9000 Points to 1 euro. On average, subjects earned 10.17 euros for about half an hour in the lab.

The sequence of events was as follows. After logging in (after entering the laboratory, respectively), subjects were randomly matched to a computer type. The computer type was displayed to subjects via a label (Greek letters) though subjects were not told how computer types were associated with labels. In the instructions (see below) subjects were told the following: “The other firm is always played by a computer program. The computer uses a fixed algorithm to calculate its output which may depend on a number of things but it cannot observe your output from the current round before making its decision.”

A page with instructions was displayed to subjects. At any time during the experiment, subjects were able read the instructions and an example for calculating profits by opening a separate window on their computer. After reading the instructions, subjects could input their quantity for the first round. The computer displayed a new window with the results for the current round including the number of the round, the subject’s quantity, the subject’s profit, the computer’s quantity as well as the computer’s profit (see Appendix B for screenshots). A subject had to acknowledge this information before moving on to the following round. Upon acknowledgment, a new page appeared with an input field for the new quantity.

This page also showed a table with the history of previous round(s)'s quantities and profits for both players.

After round 40, subjects were asked to fill in a brief questionnaire (see below) with information on gender, occupation, country of origin, formal training in game theory or economic theory, previous participation in online experiments, and the free format question "Please explain in a few words how you made your decisions". It was possible to skip this questionnaire.

The high score was displayed on the following page. This table contained a ranking among all previous subjects, separately for subjects who were matched against the same computer type and for all subjects. It also contained the computer's score.

## **B Instructions**

### **B.1 Introduction Page Internet**

Welcome to our experiment!

Please take your time to read this short introduction. The experiment lasts for 40 rounds. At the end, there is a high score showing the rankings of all participants. You represent a firm which produces and sells a certain product. There is one other firm that produces and sells the same product. You must decide how much to produce in each round. The capacity of your factory allows you to produce between 0 and 110 units each round. Production costs are 1 per unit. The price you obtain for each sold unit may vary between 0 and 109 and is determined as follows. The higher the combined output of you and the other firm, the lower the price. To be precise, the price falls by 1 for each additional unit supplied. The profit you make per unit equals the price minus production cost of 1. Note that you make a loss if the price is 0. Your profit in a given round equals the profit per unit times your output, i.e.  $\text{profit} = (\text{price} - 1) * \text{Your output}$ . Please look for an example here. At the beginning of each round, all prior decisions and profits are shown. The other firm is always played by a computer program. The computer uses a fixed algorithm to calculate its output which may depend on a number of things but it cannot observe your output from the current round before making its decision. Your profits from all 40 rounds will be added up to calculate your high

score. There is an overall high score and a separate one for each type of computer. Please do not use the browser buttons (back, forward) during the game, and do not click twice on the go button, it may take a short while.

Choose new quantity

Please choose an integer (whole number) between 0 and 110.

## **B.2 Introduction Page lab**

Welcome to our experiment!

Please take your time to read this short introduction. The experiment lasts for 40 rounds. Money in the experiment is denominated in Taler (T). At the end, exchange your earnings into euro at a rate of 9.000 Taler = 1 euro. You represent a firm which produces and sells a certain product. There is one other firm that produces and sells the same product. You must decide how much to produce in each round. The capacity of your factory allows you to produce between 0 and 110 units each round. Production cost are 1T per unit. The price you obtain for each sold unit may vary between 0 T and 109 T and is determined as follows. The higher the combined output of you and the other firm, the lower the price. To be precise, the price falls by 1T for each additional unit supplied. The profit you make per unit equals the price minus production cost of 1T. Note that you make a loss if the price is 0. Your profit in a given round equals the profit per unit times your output, i.e.  $\text{profit} = (\text{price} - 1) * \text{Your output}$ . Please look for an example here. At the beginning of each round, all prior decisions and profits are shown. The other firm is always played by a computer program. The computer uses a fixed algorithm to calculate its output which may depend on a number of things but it cannot observe your output from the current round before making its decision. Your profits from all 40 rounds will be added up to calculate your total earnings. Please do not use the browser buttons (back, forward) during the game, and do not click twice on the go button, it may take a short while.

Choose new quantity

Please choose an integer (whole number) between 0 and 110.

### B.3 Example Page

The Formula

The profit in each round is calculated according to the following formula:

$$\text{Profit} = (\text{Price} - 1) * \text{Your Output}$$

The price, in turn, is calculated as follows.

$$\text{Price} = 109 / \text{Combined Output}$$

That is, if either you or the computer raises the output by 1, the price falls by 1 for both of you. (but note that the price cannot become negative). And the combined output is simply:

$$\text{Combined Output} = \text{Your Output} + \text{Computers Output}$$

Example:

Lets say your output is 20, and the computers output is 40. Hence, combined output is 60 and the price would be  $49 (= 109 / 60)$ . Your profit would be  $(49 - 1) * 20 = 960$ . The computers profit would be  $(49 - 1) * 40 = 1920$ . Now assume you raise your output to 30, while the computer stays at 40. The new price would be  $39 (= 109 / 70)$ . Your profit would be  $(39 - 1) * 30 = 1140$ . The computers profit would be  $(39 - 1) * 40 = 1520$ .

To continue, please close this window.

## C Screenshots

**Round number 1 of 40**

**The Game**

Welcome to our experiment!

Please take your time to read this short introduction.

The experiment lasts for 40 rounds. At the end, there is a highscore showing the rankings of all participants. You represent a firm which produces and sells a certain product. There is **one** other firm that produces and sells the same product. You must decide how much to produce in each round. The capacity of your factory allows you to produce between 0 and 110 units each round. Production cost are 1 per unit.


The price you obtain for each sold unit may vary between 0 and 109 and is determined as follows. The higher the combined output of you and the other firm, the lower the price. To be precise, the price falls by 1 for each additional unit supplied.

The profit you make per unit equals the price minus production cost of 1. Note that you make a loss if the price is 0. Your profit in a given round equals the profit per unit times your output, i.e.  $\text{profit} = (\text{price} - 1) * \text{Your output}$ . Please look for an example [here](#). At the beginning of each round, all prior decisions and profits are shown.

The other firm is always played by a **computer program**. The computer uses a fixed algorithm to calculate its output which may depend on a number of things but it cannot observe your output from the current round before making its decision.

Your profits from all 40 rounds will be added up to calculate your high score. There is an overall high score and a separate one for each type of computer.

Please **do not use the browser buttons** (back, forward) during the game, and do not click twice on the go button, it may take a short while.



You are playing beta

**How to play**  
Enter a number between 0 and 110 in the field and click go.

**More Informations**

- [Introduction](#)
- [The formula](#)

**Choose new quantity**

Please choose an integer (whole number) between 0 and 110.

**History**


Round	Your quantity	Your profit	Computer quantity	Computer profit
no history yet				

13

**Round number 15 of 40**

**Choose new quantity**

Please choose an integer (whole number) between 0 and 110.



You are playing beta

**History**

Round	Your quantity	Your profit	Computer quantity	Computer profit
14	34	1360	34	1360
13	45	2205	14	686
12	75	-75	39	-39
11	27	1242	35	1610
10	38	1406	33	1221
9	48	1440	30	900
8	47	1551	28	924
7	46	1380	32	960
6	45	1350	33	990
5	45	1530	29	986
4	44	1540	29	1015
3	44	1408	32	1024
2	44	1452	31	1023
1	44	1276	35	1015

**How to play**

Enter a number between 0 and 110 in the field and click go.

**More Informations**

- [Introduction](#)
- [The formula](#)

**Round number 1 of 40**

Round	Your quantity	Your profit	Computer quantity	Computer profit
1	44	1276	35	1015