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Cournot Meets Bayes-Nash: A Discontinuity in Behavior in Finitely Repeated Duopoly Games

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Cournot Meets Bayes-Nash: A Discontinuity in Behavior in Finitely Repeated Duopoly Games

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Discussion Paper No. 460

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Cournot meets Bayes-Nash: A discontinuity in behavior in finitely repeated duopoly games*

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Abstract

We conduct a series of Cournot duopoly market experiments with a high number of repetitions and fixed matching. Our treatments include markets with (a) complete cost symmetry and complete information, (b) slight cost asymmetry and complete information, and (c) varying cost asymmetries and incomplete information. For the case of complete cost symmetry and complete information, our data confirm the well-known result that duopoly players achieve, on average, partial collusion. However, as soon as any level of cost asymmetry or incomplete information is introduced, observed average individual quantities are remarkably close to the static Bayes-Nash equilibrium predictions.

JEL Classification numbers: D43, L13, C72, C92.

Keywords: Cournot, Bayesian game, Bayes-Nash equilibrium, repeated games, collusion, cooperation, experimental economics.

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1 Introduction

This paper is concerned with the experimental occurrence of collusion (low quantities) in Cournot environments. The novelty is that we introduce repeated Bayes-Nash Cournot games, where two firms repeatedly, independently, and privately draw their cost in each round, and compare them to environments where firms either have the same costs or have different but known costs.

The emergence of (tacit) collusion in oligopolistic environments is of particular interest. For one, collusion in oligopoly typically takes the form of a social dilemma (with Nash equilibrium predictions conflicting with the collective interests of the players, as exemplified by the difference between Cournot equilibrium profits and monopoly profits). Cooperation in social dilemmas is the subject of an enormous literature across the various social sciences. Second, in many countries, the fight against collusion and cartels is at the top of competition authorities' concerns so that work on the determinants of collusion in oligopolistic markets can directly inform public policy.

Cournot competition is a workhorse of industrial organization and it has been extensively studied in the lab. Some of the very first studies in experimental economics concerned themselves with behavior in Cournot environments (see Sauermann and Selten, 1959; Hoggatt, 1959). Many determinants of collusion in Cournot environments have now been explored: the number of firms (Huck et al., 2004); the possibility of pre-play communication (Binger et al., 1990; Waichman, Requate, and Siang, 2014; Fischer and Normann, 2019); the type of feedback information about play (Huck et al., 2000; Davis 2002; Offerman et al., 2002; Altavilla et al. 2006); the matching protocol (Davis et al., 2003); the frequency or duration of interaction (Normann, Requate, and Waichman, 2014; Bigoni, Potters, and Spagnolo, 2019); the use of complete contingent strategies (as opposed to making a choice in every round; see Selten, Mitzkewitz, and Uhlich, 1997); gender effects (Mason, Phillips, and Redington, 1991); the level of the discount rate (Feinberg and Husted, 1993); or the nature of decision-making (Raab and Schipper, 2009).¹

The majority of studies look at symmetric environments, where firms have the same cost functions. Some studies (Fouraker and Siegel, 1963; Mason, Phillips, and Nowel, 1992; Mason and Phillips, 1997; Selten, Mitzkewitz, Uhlich, 1997; Rassenti et al., 2000; Normann, Requate, Waichman, 2014; Fischer and Normann, 2019) introduce (fixed) asymmetric costs. Overall, the evidence shows that asymmetry makes it much harder to collude in the lab; observed quantities are clearly more competitive than in symmetric configurations and often in line with static Nash predictions.

Most of this literature also looks at environments with complete information. Exceptions include Fouraker and Siegel (1963), Carlson (1967), and Mason and Phillips (1997), who have conditions in which a given player does not have any information about the payoff of the other player(s). Thus, in those studies,

¹For a meta-study on the determinants of collusion in oligopoly experiments, more generally, see Engel (2007).

the games are not Bayesian, in the technical sense (Harsanyi, 1967) of having a prior distribution of types commonly known to all players.² Not all of those studies compare complete-information to incomplete-information environments; when they do, they report a tendency for collusion to be harder to achieve in the presence of incomplete information.

To our knowledge, no paper so far has looked at a (finitely) repeated standard Bayesian Cournot game with uncertain costs, an environment which displays both incomplete information and potential changes in asymmetric cost levels (as cost types are drawn anew in every round). In fact, there is a scarcity of articles looking at repeated Bayes-Nash environments in the more general literature about experimental oligopolies. We are only aware of a study by Abbink and Brandts (2005), which speaks to the possibility of collusion in Bayes-Nash *Bertrand* oligopolies. In their experiment, Bertrand firms face a known linear demand curve but they independently and repeatedly draw their unit cost from a common (uniform) distribution under fixed matching for 50 rounds.

We conduct a series of Cournot laboratory experiments with two players under fixed matching and finite repetition. Our treatments include full symmetry and complete information (with two variants: constant costs over time and random realizations of symmetric costs every round), some slight cost asymmetry under complete information, and private information about repeatedly drawn costs (the proper Bayes-Nash treatments).

Subjects remain matched to the same partner for 60 rounds and face the same, known linear demand curve. In the Bayes-Nash treatments, in every round, costs are drawn to be high or low with equal probability. In a sequence of treatments, we vary the level of asymmetry (i.e., the difference between the high and the low cost).

We uncover the following main findings. First, for markets with complete cost symmetry and complete information, our data reproduce the known result that duopoly players achieve on average partially collusive outcomes (see, e.g., Huck et al., 2004). This also applies to the treatment where firms have the same costs but those are drawn anew every period. Second, we find that as soon as any level of asymmetry or incomplete information about current-period costs is introduced, collusion disappears and observed average individual quantities are remarkably close to the static Bayes-Nash equilibrium values. We do not observe differences in collusion levels among Bayes-Nash treatments based on the size of the cost asymmetry.

We investigate the adjustment process of decision-making by subjects from one round to the next ('learning') in the spirit of Offerman et al. (2002). Specifically, we introduce a conditional imitation process that consists for a given player in adopting the 'exemplary' choices made by the other player, i.e., choices which, if played in the relevant state, would increase the sum of (expected) payoffs for both players (when

²For example, Mason and Phillips (1997) study behavior when players' payoffs were either common knowledge or private information. In the latter case, players were not given any information on the distribution of payoffs of their opponents.

compared to the choices currently made by the player).³ Simulations show that such an adjustment process converges towards collusive outcomes by contrast to standard best-response dynamics that lead to the Cournot (Bayes-Nash) outcomes.

We find evidence that in the treatments where either cost asymmetry or incomplete information about current cost conditions is present, subjects' adjustments are more in line with Cournot best-response to the opponent's previous choice rather than with imitation of 'exemplary' behavior by this opponent. By contrast, in the symmetric, complete-information treatments, players put less weight on playing a best response to their opponent's last (relevant) round choice and more weight on (conditionally) imitating it, and that allows them to find their way towards cooperation by achieving gradual reductions in output.

We conclude that there is something special to the treatment involving two players under symmetry, complete information and finite repetition, which leads players to depart more from myopic optimization. In the treatments where there is either asymmetry or incomplete information about current-period costs, we find that the static Bayes-Nash equilibrium values are good predictors. In that sense, observed behavior is 'discontinuous' as soon as one moves away from complete information and full symmetry about current-period conditions.

This finding reinforces the idea that tacit collusion can be achieved in Cournot environments only in very specific circumstances. Remarkably (and setting external validity concerns aside for a moment), this seems to align well with the decisional practice of competition authorities when ruling on so-called "coordinated effects" (i.e. the possibility of tacit collusion) in merger control. Davies, Olczak and Coles (2011) indeed show that the European Commission concerns itself with collusion threats only in the case of post-merger *symmetric* duopolies.

A Bayes-Nash Cournot environment is interesting to study for several reasons. First, that game is canonical and, as such, worthy of investigation. Second, under finite repetition, subgame-perfection predicts that players will play the unique, static Bayes-Nash equilibrium in every round and one would want to know whether that prediction will be borne out. In complete-information duopolies, Cournot players typically manage, under sufficiently long repetition, to achieve higher payoffs than predicted by the Cournot equilibrium. The previous literature suggests that the presence of (possible) cost asymmetry or incomplete information could complicate the task of subjects in our context but it is simply not known to which extent collusion might be impaired and whether that depends on the magnitude of the asymmetry. Third, outside the lab firms are likely to have private information about their (changing) cost level. Although arguably specific, the Bayesian Cournot environment brings a measure of stochasticity to a literature which has mainly focused on very stable (indeed, identically repeated) contexts.

³This process nests the 'follow-the-exemplary-other-firm' learning rule of Offerman et al. (2002) as a special case. For details see our section 4.2.

The rest of this paper is structured as follows. In Section 2, we briefly describe the standard theoretical predictions associated with our Bayes-Nash environment; in Section 3 we describe our experimental set-up and the various treatments; Section 4 contains our findings, the specification of learning dynamics and our analysis of subjects' adaptive behavior; and in Section 5 we discuss our results in the light of related literature.

2 Theory

Consider an incomplete-information Cournot duopoly operating in a market with inverse demand $P(Q) = \max\{a - bQ, 0\}$, where $Q = q_1 + q_2$ is the aggregate quantity in the market. Suppose that firm $i = 1, 2$ has unit costs c_i^H with probability λ_i and c_i^L with probability $1 - \lambda_i$, where $c_i^H \geq c_i^L \geq 0$, and that these costs are privately observed.

Let $q_i^*(c_i^H)$ and $q_i^*(c_i^L)$ denote the quantities produced by firm $i = 1, 2$ in the Bayes-Nash equilibrium (BNE). It is routine to show that these quantities are given by:

$$q_i^*(c_i^L) = \frac{1}{6b} (2a - 4c_i^L + 2c_j^L - \lambda_i c_i^H + 2\lambda_j c_j^H + \lambda_i c_i^L - 2\lambda_j c_j^L) \quad (1)$$

$$q_i^*(c_i^H) = \frac{1}{6b} (2a - 3c_i^H - c_i^L + 2c_j^L - \lambda_i c_i^H + 2\lambda_j c_j^H + \lambda_i c_i^L - 2\lambda_j c_j^L), \quad (2)$$

where $i, j = 1, 2$ and $i \neq j$.

In a Cournot duopoly with complete information about (possibly different) costs $c_i \geq 0$, firms choose the following quantities in the Nash equilibrium (just set $c_k^L = c_k^H = c$ for $k = i, j$ in (1) or (2))

$$q_i^* = \frac{1}{3b} (a - 2c_i + c_j), \quad i, j = 1, 2 \text{ and } i \neq j. \quad (3)$$

The parameters used in the experiment are provided in column 3 of Table 1 and the Bayes-Nash equilibrium predictions, given parameters, are provided in column 3 of Table 2.

Provided the BNE of a stage game is unique, in a finitely-repeated Bayesian game, the only perfect Bayesian equilibrium is to play the stage-game BNE in every round of the repeated game.⁴

While the collusive outcome in a symmetric Cournot duopoly with complete information is clear (each firm produces half the monopoly quantity), in a Cournot duopoly with asymmetric costs and complete information players do not necessarily agree on the collusive actions: Static joint profit maximization calls for the high-cost firm not to produce at all and for the low-cost firm to produce the monopoly quantity. If costs are drawn at random every period and the firms play those strategies for many periods, then they

⁴Note that in a repeated version of the Bayesian Cournot game, types are drawn anew in every period. Thus, there is no role for reputation building of the kind first shown by Kreps and Wilson (1982) in the case of fixed types, drawn once and for all at the beginning of the supergame.

Table 1: Experimental Design

Treatment	Info	Parameter Choices	#Subjects	#Markets	#Obs
In all Treatments: $a = 120$ and $b = 1$					
30-C	C	$c_1 = c_2 = 30$	14	7	840
29-29-31-31-C	C	$\lambda_1 = \lambda_2 = 0.5, c_1 = c_2 = 29, c_1 = c_2 = 31$	36	18	2,160
29-31-C	C	$\lambda_1 = \lambda_2 = 0.5, c_1^H = c_2^H = 31, c_1^L = c_2^L = 29$	30	15	1,800
29-31-I	I	$\lambda_1 = \lambda_2 = 0.5, c_1^H = c_2^H = 31, c_1^L = c_2^L = 29$	28	14	1,680
25-35-I	I	$\lambda_1 = \lambda_2 = 0.5, c_1^H = c_2^H = 35, c_1^L = c_2^L = 25$	28	14	1,680
20-40-I	I	$\lambda_1 = \lambda_2 = 0.5, c_1^H = c_2^H = 40, c_1^L = c_2^L = 20$	26	13	1,560
20-40-10-50-I	I	$\lambda_1 = \lambda_2 = 0.5, c_1^H = 40, c_1^L = 20, c_2^H = 50, c_2^L = 10$	28	14	1,680

Notes: The letter I (C) in column Info indicates that firms have In(Complete) information about each other's costs. The individual equilibrium quantities for each treatment are indicated in Table 2 in the column labeled "Quantity in the BNE."

might, on average, collect half of the monopoly profit. However, a high-cost firm might be particularly wary that its rival might not reciprocate and cut production next time the cost configuration is reversed. If, for this reason, firms insist on producing the same quantity every period, then, because of the cost difference, they disagree about the optimal level.⁵ Finally, in a proper Bayesian Cournot game where cost draws are privately observed, cooperation/collusion problems are arguably even more severe. In particular, it is no longer optimal, from the point of view of joint profits, to stop production when one draws a high-cost (as there is a non-zero probability that both firms draw such costs). We are not aware of a theoretical paper that solves for the optimal collusive scheme in this environment.⁶

3 Experimental Design and Procedures

In the experiment, subjects participated in 60 consecutive rounds of decision-making. In each round, the inverse demand function was given by $P(Q) = \max\{0, 120 - Q\}$, where $Q = q_1 + q_2$ represents the aggregate quantity in the market. Participants acted as firms and decided simultaneously on their quantities $q_i, i = 1, 2$. We used a between-subjects design. Table 1 gives an overview of all treatments. The treatments differ with respect to the distribution of the unit costs of the two firms, $c_i, i = 1, 2$ and with respect to the information about the cost structure in the market. In three out of the seven treatments (indicated with the letter 'C' in the treatment's name), the costs of both firms in a given round were common knowledge. In

⁵For more on this, see Schmalensee (1987) for a theoretical, and Fischer and Normann (2019) for a theoretical and experimental, investigation of this case.

⁶For Bertrand games, the optimal collusive scheme has been characterized by Athey and Bagwell (2001) in the case of inelastic demand. For Cournot games, optimal schemes have been characterized only in the case of privately observed costs that are drawn once and for all, see Chakrabarti (2010). Under fixed types, if communication between firms is allowed, Roberts (1985) has pioneered a mechanism design approach to the problem.

the other four treatments (with the letter ‘I’ in the treatment’s name), subjects only knew their own cost. More precisely, 30–C is a standard Cournot duopoly in which firms have constant unit costs of 30 each throughout the experiment and know it. In all other treatments, firms have one of two possible unit costs in each round, where in each round the unit costs are randomly assigned with probability 0.5. In 29-29–31-31–C, although the cost level is drawn randomly each period, the two firms receive the same costs. Symmetry is thus preserved. By contrast, in 29-31–C, firms’ costs are *independently* drawn in each period and can therefore end up being different. While in 29-29–31-31–C and 29-31–C both firms know their own and the other firm’s unit costs in each round, in all I-treatments each firm knows (a) its own randomly assigned unit cost and (b) the binary distribution of the unit cost of the other firm but not its realization. Note that all C-treatments and three of the four I-treatments (29-31–I, 25-35–I, 20-40–I) are *ex-ante* symmetric. Treatment 29-31–C could be *ex-post* asymmetric. Treatment 20-40–10-50–I is *ex-ante* and *ex-post* asymmetric as one firm has the two possible costs level of 20 and 40 and the other 10 and 50, respectively. Finally, note that in all treatments the *ex-ante* expected costs of firms are equal to 30.

The comparison between 30–C and 29-31–C allows us to measure the net effect of introducing random costs, under complete information. However, two changes happen at the same time: first, current costs, i.e., costs in a given round, might be different; second, the future is now uncertain as future cost configurations are not known. Comparisons with 29-29–31-31–C allow us to disentangle the two effects, since in this treatment, current costs are always identical, while the future remains uncertain (although symmetric). The comparison between 29-31–C and 29-31–I allows us to single out the role of incomplete information, at unchanged cost structure. Comparisons among 29-31–I, 25-35–I, and 20-40–I allow us to detect any impact of the size of cost asymmetry, given incomplete information. Treatment 20-40–10-50–I allows us to detect any potential additional impact of *ex-ante* asymmetry.

In each round, subjects could choose a non-negative quantity not larger than 120 with the smallest step size being 0.01. Before making their quantity decision, subjects also had the opportunity to simulate different market scenarios with the help of a profit calculator: they could enter two arbitrary quantities, one for themselves and one for their opponent, and were then shown the resulting profit for them.⁷ After all subjects had submitted their decisions, the computer software cleared the market by quoting the price leading (simulated) demand to equal the entire fictional quantity supplied. Subjects were then informed about the following: the last round’s costs (own cost in I-treatments or both costs in C-treatments), the quantity decisions of both firms, and their own profit in that round. This information remained present on the screen when deciding in the next round. Note that no information about the unit cost of the other firm

⁷The profit calculator provides essentially the same information as commonly used payoff tables, but helps to avoid a possible bias due to limited cognitive abilities of participants (Huck et al. 2000, p. 42). Due to its availability in all treatments, the use of the payoff calculator cannot explain the treatment effects we report in this paper. Note that Requate and Waichmann (2011) report that “the most standard variations, which are the use of a profit table or a profit calculator, yield indistinguishable performance.” (p. 36)

was ever provided in the incomplete-information treatments.

Upon arrival in the lab, participants were given written instructions (see Web Appendix C for a translated version). Each participant was assigned to a computer and randomly matched with another subject with whom they interacted over the entire experiment. Subjects never learnt with whom they formed a market and communication among subjects was not possible. However, it was common knowledge that the composition of markets formed at the beginning of the experiment remained fixed throughout the whole experiment. The instructions stated that subjects would represent a firm in a market competing with one another firm.

The experiment was programmed and conducted using zTree (Fischbacher 2007) at the Technical University Berlin and Humboldt University Berlin. Participants were students (33% female), mostly from economics, business, natural sciences, or engineering. Altogether, we conducted 95 markets with 190 subjects and collected 11,400 quantity decisions. Each subject participated in one market only.

In the experiment, a fictional currency called ECU (Experimental Currency Unit) was used, with a pre-announced exchange rate of 3000 ECU = 1 EUR. At the end of the experiment, subjects were paid on the basis of their cumulated earnings over the 60 rounds of play. The average earnings per subject in the experiment was 18.02 EUR.⁸ Sessions took about 60 minutes to complete.

4 Experimental Results

4.1 Aggregate results

Table 2 provides summary statistics for our experimental results. To account for statistical dependence of observations over time within a given market, we provide averages of individual quantities per market (with standard errors of the mean in parentheses) for various time intervals and for each of our treatments separately.⁹ Table 2 also shows the results of two-tailed Wilcoxon tests of whether the sample mean is equal to Bayes-Nash equilibrium values. The unit of observation for the tests are market averages of individual quantities. Looking at Table 2, we make a number of observations. First, for treatment 30–C, we find confirmation of the known result that subjects are, on average, partially able to collude.¹⁰ For the three time intervals considered, the Wilcoxon test indicates that the observed individual market averages are statistically significantly below the Nash equilibrium. Second, in treatment 29-29–31-31–C, subjects also collude on average, though to a lesser extent than subjects in treatment 30-C. Again, Wilcoxon tests for treatment

⁸In addition to their earnings in the experiment, subjects were given an initial (show-up) payment of 2.50 EUR in all treatments except 29-29–31-31–C, and 6 EUR in treatment 29-29–31-31–C (due to a change in the lab rules at the time the latter treatment was conducted).

⁹As mentioned before, perfectly collusive outcomes are not well-defined in all treatments but 30–C due to the asymmetry of interests. Hence, we do not provide collusion indices (Friedman 1971) as is customary in many papers on market experiments.

¹⁰Note that the individual perfectly collusive quantity (half of the monopoly quantity) is 22.5.

29-29-31-31-C indicate that the observed individual market averages are statistically significantly below Bayes-Nash equilibrium levels for all time horizons considered in Table 2. Third, in all other treatments the observed averages are remarkably close to the Bayes-Nash equilibrium, and in none of the cases does the Wilcoxon test reject equality of observed averages with predicted values ($p > 0.1$).¹¹ This is perhaps most surprising in treatments 29-31-C and 29-31-I where subjects know that in each round they have very similar costs. Yet it appears that subjects are unable to collude successfully even though they interact repeatedly over 60 rounds in fixed pairs. Figure A1 in Web Appendix B.1 shows the distributions (histograms) of averages of individual quantities per market for each treatment separately.

The question is why we observe successful collusion in the case of full symmetry and complete information but neither in complete-information treatment 29-31-C nor in any of the incomplete-information treatments (one of which involves only minute payoff differences). The results for 29-29-31-31-C, where subjects manage to achieve some collusion, while they fail to do so in 29-31-C, suggest that (small, symmetric) uncertainty about the future is not the main driver of the breakdown in cooperation. Asymmetry or uncertainty about *current* cost conditions, the fact that subjects do not know that they have identical interests in the current period, seems to play a key role. We thus conjecture that in treatments in which asymmetry or incomplete information about current cost conditions is present, players are less willing to cooperate. This could translate into some unwillingness to go along with opponents who try and cut output.

In the next subsection, we shed light on this issue by analyzing to what extent behavior in our treatments accords with several learning dynamics.

4.2 Learning dynamics: Theory

To understand subjects' quantity choices, we attempt to compare their sequence of decisions to some learning rules that could theoretically explain how their behaviors evolve over time. Two caveats apply. First, many learning rules or models have been proposed in the game-theoretic and experimental literatures over the past 40 years so that any focus on a subset of them can always be construed as arbitrary. One is often led to use those rules that have been extensively studied or have interesting theoretical properties or have been shown to have some predictive power in a number of contexts. We will be no exception.

Second, most of the learning-in-games literature has been concerned with stable and symmetric environments where players have the same strategy set and the same payoff function in every period. When costs are independently and randomly drawn, our Bayes-Nash Cournot stage game is *ex-ante* symmetric (except in 20-40-10-50-I, which we leave aside), but in any given period, because of the cost draws, two players in a market may happen to have different costs and therefore different payoffs. Moreover, the situ-

¹¹The existing literature on Cournot markets with asymmetric costs, complete information and fixed matching reports observed average individual quantities to be close to static Nash predictions (see Mason et al. 1992; Fonseca et al., 2005; or Normann et al., 2014).

Table 2: Summary statistics

Treatment	Costs	Quantity in the BNE	Average Individual Quantity Observed		
			Rounds 1-30	Rounds 31-60	Rounds 1-60
30-C	$c = 30$	30	26.72** (1.26)	25.72* (1.24)	26.22** (1.09)
29-29-31-31-C	$c_1^L = 29, c_2^L = 29$	30.33	28.18** (0.76)	28.24** (0.77)	28.22** (0.72)
	$c_1^H = 31, c_2^H = 31$	29.67	27.44*** (0.64)	27.34** (0.76)	27.41*** (0.68)
29-31-C ^a	$c_1^L = 29, c_2^L = 29$	30.33	28.81 (0.79)	30.27 (0.71)	29.69 (0.66)
	$c_1^L = 29, c_2^H = 31$	31	30.75 (0.78)	30.68 (0.47)	30.70 (0.58)
	$c_1^H = 31, c_2^L = 29$	29	28.15 (0.80)	29.19 (0.54)	28.72 (0.64)
	$c_1^H = 31, c_2^H = 31$	29.67	28.49 (0.64)	29.75 (0.50)	28.99 (0.56)
29-31-I	$c^L = 29$	30.5	29.72 (0.85)	29.26 (0.95)	29.49 (0.88)
	$c^H = 31$	29.5	28.04 (0.73)	28.89 (0.92)	28.45 (0.78)
25-35-I	$c^L = 25$	32.5	32.22 (0.77)	32.30 (0.53)	32.27 (0.57)
	$c^H = 35$	27.5	27.63 (0.41)	28.25 (0.70)	27.93 (0.49)
20-40-I	$c^L = 20$	35	34.52 (0.71)	35.69 (0.77)	35.12 (0.65)
	$c^H = 40$	25	24.96 (0.58)	25.27 (0.78)	25.08 (0.56)
20-40-10-50-I	$c_1^L = 20$	35	35.00 (1.46)	36.50 (1.96)	35.64 (1.62)
	$c_1^H = 40$	25	24.18 (1.45)	23.44 (1.17)	23.77 (1.24)
	$c_2^L = 10$	40	37.72 (1.84)	39.16 (2.20)	38.49 (1.88)
	$c_2^H = 50$	20	19.86 (1.04)	17.90 (1.17)	18.93 (1.09)

Notes: This table shows averages of individual quantities per market with standard errors of the mean in parentheses. BNE refers to the Bayesian Nash equilibrium. ^a In treatment 29-31-C, BNE and observed quantities refer to those of player 1. Test statistics refer to two-tailed Wilcoxon tests of whether the sample mean is equal to BNE quantities. The unity of observation for the tests are averages of individual quantities per market. The symbols ***, **, * indicate significance at the 1%, 5%, 10% level, respectively.

ation might be different in the next period. This considerably complicates the specification of “reasonable” learning rules. To illustrate, suppose that in treatment 29-31–C, in period t , both player 1 and player 2 drew c_L . Suppose further that in period $t + 1$, player 1 drew cost c_L again while player 2 drew c_H . Imagine you want to specify a simple best-response rule where a player plays her best-response to the latest relevant quantity played by her opponent. In $t + 1$, should player 1 best-respond to the quantity chosen by player 2 in period t ? That is defensible but not obvious. Indeed, player 1 knows that player 2 now has a different payoff and may be led to play another quantity than the one she last chose. She may want to react to the quantity chosen by player 2 the last time she drew a cost of c_H , which may not be the previous period in general and is not the previous period in this specific example.

We could not find relevant guidance in the literature about such questions and about learning in changing environments, more generally. Hence, our study of individual behavior is a first pass at dealing with the issue. We chose to adapt some existing rules to our context (and later check that using some other, perhaps more “naive”, rules also supports our analysis) but we do not claim any of those to be of universal application. We believe our choices are sensible but the general question of learning in dynamic games remains open.

We focus on two learning rules: best-response to relevant past play and conditional imitation of the other player’s actions. Those two processes have the interesting property of converging toward Cournot outcomes and collusive outcomes (in some specific sense which we explain below), respectively.

4.2.1 Specification of the best-response (“BR”) process

In some of our treatments, in each period, players face a potentially different (observable) cost configuration. We define the first learning rule as best-responding to the last “relevant” quantity played by the other player. The general idea is as follows. If $r_i(s)$, where s is a particular cost configuration, stands for the latest quantity played by firm j in that cost configuration, firm i will best-respond to $r_i(s)$ next time cost configuration s is drawn. It is as if player i were keeping mental track of the quantities last chosen by player j in the various cost configurations.

For example, in treatment 29-31–C, player i observes the cost type of j on top of her own cost. Thus, there are four (common) cost configurations or states, and the state space is

$S = \{(c_L, c_L), (c_L, c_H), (c_H, c_L), (c_H, c_H)\}$, where the first variable stands for the cost drawn by player 1 and the second, for the cost drawn by player 2. Let $b(\cdot)$ denote the Cournot best-response operator. Let q_j^t be the quantity played by player j in period t . In any period, an updating process takes place. If player i finds herself in state $s \in S$ in period t , she will play $b(r_i(s))$ and then update $r_i(s)$ to correspond to q_j^t so that next time cost configuration s arises again, she will best-respond to q_j^t .

In incomplete-information treatments, for example, 29-31–I, player i observes only her own cost

level. Hence, the set of observable cost configurations is $S = \{c_L, c_H\}$. That is, when i observes a particular cost level for herself, she will best-respond to the quantity chosen by j last time she happened to have drawn that cost level. That is the sense in which a player best-responds to the quantity chosen by the other player in the last “relevant” round.

4.2.2 Specification of the conditional imitation (“CI”) process

Imitation has been shown to play a role in a number of experimental games (see, e.g., Huck et al. 1999, 2002, Rassenti et al. 2000, Offerman et al. 2002). In an environment where players do not necessarily have the same payoff, it is however not obvious how to specify an imitation process (or even, whether imitation should take place in the first instance). We specify an imitation process that is not “naive” (reproducing the choices of the other player in all circumstances) but is concerned with the “exemplary” choices made by the other player.¹² Exemplarity is defined with reference to the maximization of joint payoffs: the quantity chosen by the other player in a particular cost configuration is exemplary if, when a player found herself in a comparable situation, she would find it better, from the point of view of the expected sum of profits, to play the quantity chosen by the other player rather than the quantity that she has last played in that state.

Thus, each player keeps track of a set of “exemplary” quantities, one for each cost configuration at which she may be called upon making a decision. At the end of every period, given the current cost configuration and play, a player asks herself whether the quantity just chosen by the other player would be a good idea for her to play in comparable circumstances. If (and only if) the answer is yes, then that player will update her list of exemplary quantities and imitate the other player next time those relevant circumstances arise. That is the sense in which imitation is “conditional”.

This process is inspired by the “follow-the-exemplary-other-firm” process put forward by Offerman et al. (2002) in the case of symmetry, identical repetition, and complete information, and actually nests that case as a special (degenerate) case with one (common) cost configuration.

To be more specific, in the asymmetric case under complete information (treatment 29-31-C), player i observes the cost type of j on top of her own cost. Thus, there are four (common) states:

$(c_L, c_L), (c_L, c_H), (c_H, c_L), (c_H, c_H)$. So, each player i keeps track of four exemplary quantities: $\{\mathbf{q}_i(c_L, c_L), \mathbf{q}_i(c_L, c_H), \mathbf{q}_i(c_H, c_L), \mathbf{q}_i(c_H, c_H)\}$.

In the symmetric states $\{(c_L, c_L), (c_H, c_H)\}$, at the end of the period, player i asks herself whether it would have been a good idea for her to play the quantity just chosen by j . If so, she updates the relevant state variable and will play that quantity next time the cost configuration arises again.

In the asymmetric states $\{(c_L, c_H), (c_H, c_L)\}$, at the end of the period, player i asks herself whether

¹²Note that a deterministic unconditional imitation process where players simply play the quantity chosen by the other player in the latest round would not necessarily converge, as players would take turns in playing the two initially-chosen quantities.

it would have been a good idea to play the quantity just chosen by j , had she been in j 's position, that is, had the two roles (cost types) been switched. That is consistent with the fact that player i understands that she has just had a different cost draw than player j and that player j 's choice is relevant to her, from the point of view of joint profit maximization, only in the reversed cost configuration. If the answer is yes, she will update the relevant state variable and play that “exemplary” quantity next time roles are switched.

In the case of incomplete information, player i is not aware of player j 's cost and so this issue does not arise, as i simply asks herself whether the quantity chosen by j would be a good idea, from the point of view of joint profit maximization, for a player who has just drawn her cost level and does not know the cost of her opponent for sure. We provide details about the updating processes in Web Appendix A.¹³

Note that under this conditional imitation rule, players move towards quantities that are more and more “collusive” since they choose to change their behavior (“update”) only when this is better from the point of view of joint expected profit-maximization. By contrast, as is intuitive, best-response dynamics in Cournot environments lead players towards Cournot equilibrium outcomes.

4.2.3 Simulation results

That is corroborated by our simulations of (stochastic versions of) best-response and conditional imitation dynamics for all treatments (see Table A1 in Web Appendix A.3). First, best-response dynamics converge to the Bayes-Nash equilibrium of the stage game in all treatments.¹⁴ Second, for the complete-information treatments, conditional imitation dynamics converge to the solution to joint profit-maximization, which consists of having the low-cost firm produce the monopoly quantity (for that cost level), while the high-cost firm produces nothing. In incomplete-information treatments, play also converges to quantities that are below the Bayes-Nash predictions and decreasing in costs, but both strictly positive. Note that in those latter treatments, the sum of the two limit quantities is roughly equal to 45, which is the monopoly output in Treatment 30-C.

Hence, it appears that players following best-response dynamics (“BR”) would converge towards “competitive” play (Bayes-Nash Cournot outcomes) while players following conditional imitation dynamics (“CI”) would achieve collusive outcomes. Thus, determining whether players are closer to using BR learning rules, than to using CI, potentially allows us to explain why outcomes may be more competitive in some treatments than in some others.

¹³We leave aside treatment 20-40-10-50-I. In this treatment, players know for a fact that they will never have the same cost level as their opponent's. Thus, the very idea of imitating the other player's behavior is called into question.

¹⁴For complete-information Cournot duopoly with linear demand and costs, this is of course known since Theocharis (1960). With costs randomly drawn every period, the quantity played varies from one period to the next. So, q_i^t , as a series, does not technically converge. Quantities played as a function of the cost configuration converge.

4.3 Learning: Results

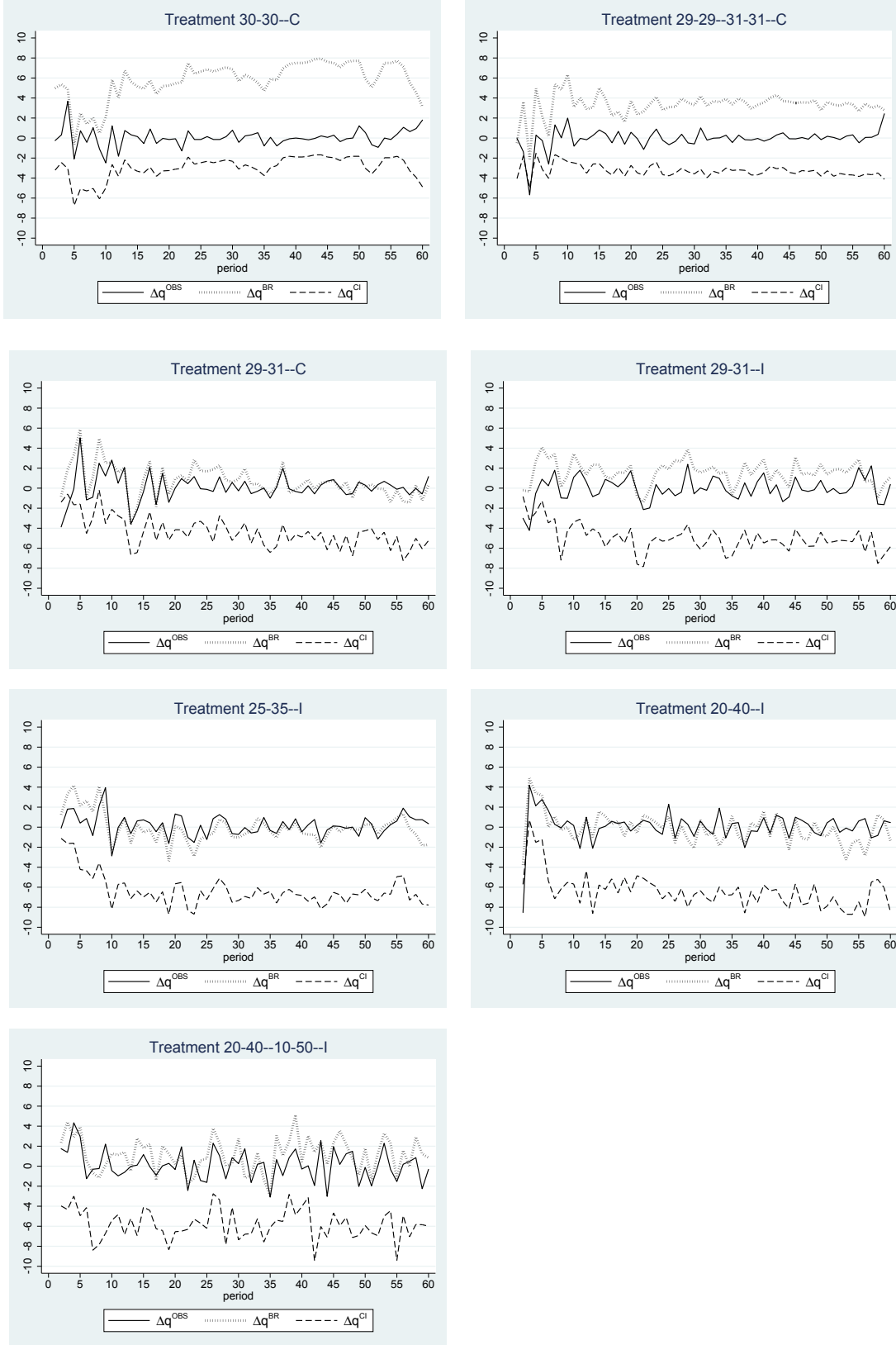
In order to explore the learning patterns in our experiment, we compare the observed adjustment behavior with those predicted by the two learning dynamics discussed in the previous section. Figure 1 shows the evolution of the average observed differences $\Delta q^{\text{OBS}} = q_i^t - q_i^{t-1}$ (black line), where q_i^t and q_i^{t-1} are player i 's quantity choices in current period t and previous relevant period $t - 1$, respectively, averaged across cost configurations and markets per treatment. The two other lines in Figure 1 indicate the predicted average differences $\Delta q^{\text{BR}} = BR_i^{t-1} - q_i^{t-1}$ (dotted line) and $\Delta q^{\text{CI}} = CI_i^{t-1} - q_i^{t-1}$ (dashed line), where BR_i^{t-1} and CI_i^{t-1} are the point predictions implied by playing “best response” and “conditional imitation,” respectively.¹⁵ Inspecting Figure 1, we make one main observation: In treatments 30–C and 29-29–31-31–C, the line representing Δq^{OBS} is between the lines representing Δq^{BR} and Δq^{CI} . However, in all other treatments, the lines representing Δq^{OBS} and Δq^{BR} are very close to each other, while the line representing Δq^{CI} is clearly and substantially below the two other lines. This suggests that in treatment 29-31–C and all incomplete-information treatments, behavior is much more in line with best-response adaptations than with conditional-imitation behavior.

We performed non-parametric tests to verify that behavior in the treatments with symmetric costs and complete information (as shown in the two top panels in Figure 1) is qualitatively clearly different than behavior in the asymmetric-cost treatment 29-31–C and the incomplete-information treatments (as shown in the other panels in Figure 1). For this purpose, we computed averages across all periods at the individual market level of the terms Δq^{OBS} , Δq^{BR} and Δq^{CI} . Table A2 in Web Appendix B.1 shows market averages (with standard errors of the mean in parentheses) of these terms for each possible cost configuration per treatment. Table A2 also shows the results of two-tailed Wilcoxon tests of whether the sample mean of Δq^{OBS} is the same as either Δq^{BR} or Δq^{CI} , respectively. The unit of observation for the tests are market averages for each treatment. For treatments 30–C and 29-29–31-31–C, we find that the market averages of Δq^{BR} are significantly larger than the market averages of Δq^{OBS} and the latter significantly larger than the market averages of Δq^{CI} . For all other treatments, we find that the market averages of Δq^{OBS} and Δq^{CI} are still significantly different, but that the market averages of Δq^{OBS} and Δq^{BR} are statistically indistinguishable from each other. This indicates that adaptation behavior in treatments other than 30–C and 29-29–31-31–C are in line with best-response behavior and clearly different from conditional-imitation behavior. Average observed adaptation behavior in the treatments 30–C and 29-29–31-31–C appears to be a mix between BR and CI. Indeed, in those treatments we find that subjects in some markets successfully collude, while others rather play according to Nash equilibrium predictions.

We also conducted tests at the individual level. To do so, we define the following dummy variable

¹⁵For the initialization of the CI dynamics, we use the average across markets of quantities chosen by the other player in the relevant cost configuration in period 1.

Figure 1: Evolution of average observed and predicted changes in quantities



Notes: The panels in this figure show the evolution of the terms $\Delta q^{\text{OBS}} = q_i^t - q_i^{t-1}$ (black line), $\Delta q^{\text{BR}} = BR_i^{t-1} - q_i^{t-1}$ (dotted line) and $\Delta q^{\text{CI}} = CI_i^{t-1} - q_i^{t-1}$ (dashed line) per treatment (see the definitions in the text, starting on page 14), averaged across cost configurations and markets of the same treatment.

Table 3: Summary of hypothesis tests for adjustment dynamics per individual

	H_0	H_1	30-30-C	29-29-31-31-C	29-31-C	29-31-I	25-35-I	20-40-I
Percentage of subjects for which H_0 is rejected at the 5% level (in favor of H_1)								
“Previous relevant rounds”	$p = 0.5$	$p < 0.5$	57.14	33.33	6.67	21.43	7.14	7.69
	$p = 0.5$	$p > 0.5$	28.57	47.22	60.00	60.71	71.43	53.85

Notes: This table shows the results of binomial tests at the individual level, using all data. Note that $p < 0.5$ ($p > 0.5$) means that behavior is closer to conditional imitation (best response).

labeled “INDEX” for each individual decision observed in the experiment:

$$\text{INDEX} = \begin{cases} 1 & \text{if } |\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{CI}}| \\ 0 & \text{otherwise.} \end{cases} \quad (4)$$

That is, variable INDEX is equal to 1 if the observed adaptation (Δq^{OBS}) is closer to the one prescribed by best-response behavior (Δq^{BR}) rather than conditional-imitation behavior (Δq^{CI}), and 0 otherwise. Under the assumption that the BR and CI dynamics explain observed behavior equally well, the variable INDEX as defined in (4) should be binomially distributed with $p = 0.5$ for each subject.¹⁶ Note that an observed $p > 0.5$ ($p < 0.5$) means that a subject’s behavior is closer to BR (CI). The results are presented in Table 3, where we ignore treatment 20-40-10-50-I, see footnote 13. The entries in this table indicate the share of subjects per treatment for which $H_0: p = 0.5$ is rejected. We make the following main observations. In treatment 30-C, the percentage of subjects for which H_0 is rejected in favor of $H_1: p < 0.5$ is clearly *larger* than the percentage of subjects for which H_0 is rejected in favor of $H_1: p > 0.5$. In the other treatments, the percentage of subjects for which H_0 is rejected in favor of $H_1: p < 0.5$ is clearly *smaller* than the percentage of subjects for which H_0 is rejected in favor of $H_1: p > 0.5$. This indicates that at the individual level, in all treatments but 30-C subjects’ adjustments are on average more in line with best-response behavior than with conditional-imitation behavior, highlighting the effect of introducing asymmetric costs and incomplete information.

We also investigate the above results by means of extensive regression analysis. The variable INDEX as defined in (4) serves as the dependent variable in probit panel regressions involving the following independent variables: A binary variable (“AsymCosts”) indicating whether cost asymmetry exists, a binary variable (“PrivInfo”) indicating the presence of incomplete information, and a binary variable (“RandSym”) indicating randomness in cost assignment in a symmetric and complete-information treatment. The regression results, reported in Table A3 in Web Appendix B.2, show that AsymCosts and PrivInfo are positive and statistically significant, while RandSym is also positive but insignificant. Given the definition of the de-

¹⁶We hasten to acknowledge that this approach (counterfactually) relies on the observations in a given market being independent from one period to the next.

pendent variable in (4), these results confirm that the presence of cost asymmetry or incomplete information significantly tilts behavior towards best-responding. In the Web Appendix B.2, we show that other definitions of cost asymmetry (ex post asymmetry) or conditioning on the last round played rather than the last “relevant” round leave this result unchanged. We also perform robustness checks by (i) changing the initial conditions of the CI process (predicted BNE quantities instead of the average observed quantities played in period 1), (ii) redefining the CI process by allowing players to learn not only from the quantities chosen by the other player but also from the ones they have just chosen in the current round, and (iii) replacing the CI process with unconditional imitation (UI) of the quantity played by the other player in the last relevant round. Although the level of significance of our regressors occasionally change from one regression to the next, all specifications indicate that cost asymmetry and complete-information foster best-response behavior (see Web Appendix B.3).

Finally, the analysis of the recorded simulations conducted by subjects with the help of the payoff calculator prior to the actual quantity choices confirms the observed difference in the subjects’ decision approach used in treatment 30–C compared to the treatments with either cost asymmetry or incomplete information.¹⁷ See Table A5 in Web Appendix B.4 for detailed results. Specifically, it is apparent that subjects in treatment 30–C used the profit calculator least often, and also the share of actual quantity choices tried out in the simulations were at the minimum in treatment 30–C.

5 Concluding remarks

5.1 Summary

We report on Cournot duopoly market experiments with a relatively high number of repetitions and fixed matching. We run treatments that include markets with (a) complete cost symmetry and complete information about current costs (which are either constant over time or drawn anew every period), (b) slight cost asymmetry and complete information, and (c) varying cost asymmetries and incomplete information.

The main result can be interpreted as a “discontinuity” in behavior: While for markets with complete symmetry of, and complete information about, current cost conditions, our data confirm the known result that duopoly players achieve on average partially collusive outcomes, we find that, as soon as any level of cost asymmetry or incomplete information is introduced, collusion breaks down and observed average individual quantities get remarkably close to the static (Bayesian) Nash equilibrium values. This is so despite a high number of repetitions (60 rounds) and fixed matching.

The results of the analysis of players’ adjustment behavior over time provide an explanation of this

¹⁷Recall that according to our experimental design, before making their quantity decisions, subjects had the opportunity to simulate different market scenarios with the help of a profit calculator. More precisely, they could try different pairs of quantities (own and of the opponent) and were then shown the resulting profit for themselves.

main result. We find significantly more adjustments in line with best-response behavior than with conditional imitation in those treatments involving asymmetry or incomplete information about current cost conditions. This explains our results since simulations show that best-response dynamics converge to static (Bayesian) Nash equilibrium quantities, whereas conditional-imitation dynamics converge to collusive outcomes.

The standard adjustment dynamics that are present in the literature have been developed in the context of symmetric and complete-information games. Adapting them to asymmetric or uncertain environments is not necessarily obvious and we have made a first pass at it. Other learning rules and other approaches can be conceived and we do not claim that the ones we used in this paper are the best predictors of subjects' behavior. We think that future theoretical and empirical work should probe whether alternative specifications can better account for players' adaptations over time in such environments.

5.2 Relation to the literature

In their *Bertrand* duopoly treatment (as well as the ones with 3 or 4 firms) with costs independently and repeatedly drawn from a common distribution, Abbink and Brandt (2005) found that prices were systematically below the Bayes-Nash values, that is, observed play was more competitive than Bayes-Nash equilibrium predictions. We find, on the contrary, that, in our incomplete information treatments, observed average quantities are in line with Bayes-Nash equilibrium predictions. This may yet again point to a fundamental difference between experimental Bertrand and Cournot environments (and more generally, games of strategic substitutes vs. games of strategic complements, see e.g. Potters and Suetens, 2009; Mermer et al. (2021). Note, however, that, in contrast to the evidence relating to complete-information, symmetric contexts (Suetens and Potters, 2007), in Bayes-Nash environments Bertrand appears to lead to more competitive outcomes than Cournot.

When it comes to collusion, the Cournot model can be interpreted as an extended form of a Prisoner's Dilemma (PD). There are several papers that explore the role of stochasticity, asymmetry and incomplete information in (finitely) repeated PD games. See Andreoni and Miller (1993), Bereby-Meyer and Roth (2006), Ahn et al. (2007), or Zhang et al. (2022), to name a few.¹⁸ However, these papers, like the Cournot literature, implement incomplete information in a context that is quite different from the one of Bayesian games (Harsanyi, 1967). For example, Andreoni and Miller (1993) manipulate subjects' beliefs about the opponent's type by varying the probability of interacting with a computerized opponent. Bereby-Meyer and Roth (2006) compare behavior in PD games with either deterministic or 'noisy' (as opposed to type-contingent) payoffs. Notwithstanding those differences, similarly to our findings, these studies tend to show that cooperation is harder to sustain when a (potential) difference in players' payoffs leads to an increase in

¹⁸For a survey of the literature on (in)finitely repeated PD games, see Embrey et al. (2018), Bo and Fréchette (2018), Mengel (2018).

the uncertainty about the opponents' intentions.

There is also a sizeable experimental literature studying collusive behavior in auctions, which stand for prime examples of Bayesian games. However, by construction, this literature does not compare complete to incomplete information.¹⁹ Moreover, very few studies concern themselves with asymmetry and, when doing so, typically focus on *ex-ante* asymmetry in the distribution of valuations (see e.g. Güth et al., 2005).²⁰ Instead, researchers compare various auction formats or various 'institutions' thought to affect collusion.²¹ The most closely related studies in this strand of literature are the ones of Sherstyuk (1999) and Sherstyuk (2002) which investigate whether and to what extent varying the degree of bidders' value (*ex-post*) asymmetry and the gains from collusion in oral ascending auctions affects collusion. Note that in ascending auctions, players' actions are observable and reaction to opponents' actions are possible before the game ends. In that sense, Bayes-Cournot games are comparable to sealed-bid auctions rather than ascending auctions but repetition allows for some reactions over time. Those differences notwithstanding, Sherstyuk (1999) demonstrates that if all bidders have the same value for the object (the special case of symmetry and complete information), then collusive outcomes are sustainable only in oral ascending auctions, whereas outcomes in sealed-bid auctions are significantly more competitive. Sherstyuk (2002) shows that, if bidders' values are private information, but drawn from the same (*ex-ante* symmetric) distribution, increasing the level of bidders' value *ex-post* asymmetry leads to an increase in market competitiveness. Those results are broadly in line with our findings.

Finally, our results are also reminiscent of those in Crawford et al. (2008). These authors report that in games with symmetric payoffs salient labels generate high coordination rates, while the effectiveness of salient labels is significantly reduced in the presence of even slight payoff differences between players. Crawford et al. (2008) mainly invoke level-k thinking to explain their one-shot experiments.²²

It is worth noting that our experiment was concerned with decision-making in isolation, without the possibility for subjects to communicate. Communication is often reported to help sustain cooperation in social dilemmas. For instance, in the context of symmetric Bertrand oligopolies, Fonseca and Normann (2012) show that pre-play communication increases profits for any number of firms. Fischer and Normann (2019)

¹⁹Complete information in an independent private value auction would reduce to standard Bertrand competition.

²⁰Exceptions include Avery and Kagel, 1997 who compare symmetric and asymmetric payoffs in second-price common-value auctions and Andreoni et al. (2007) who study asymmetric information about opponents' types in standard (*ex-post*) private-value auctions.

²¹For example, Hu et al. (2011) compare behavior in single-unit auctions across three different auction formats allowing for explicit collusion and introducing *ex-ante* asymmetry among groups of bidders. Kwasnica and Sherstyuk (2007) show that in repeated multi-object ascending auctions, collusion can be achieved through bidders' coordination on payoff-superior outcomes. Hinlopen and Onderstal (2014) study the role of external enforcement and cartel detection, Agranov and Yariv (2016), Noussair and Seres (2020) focus on the role of communication.

²²Interestingly, some of their results can only be explained by "team reasoning" where "players begin by asking themselves, independently, if there is a decision rule that would be better for both than individualistic rules, if both players followed the better rule" (p. 1448). Note that this kind of team reasoning is also the basis of the CI approach suggested by Offerman et al. (2002) and used in our analysis.

show that in asymmetric Cournot duopolies, talking helps reduce output. Agranov and Yariv (2018) show that communication reliably facilitates collusion in one-shot sealed-bid auctions. This begs the question as to whether communication would also restore cooperation in our Cournot-Bayes-Nash environments. We plan to investigate this matter in future work.

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Web Appendix

A Details of updating processes

A.1 Best-response

We here specify the deterministic version of our best-response learning rule.

Let S be the set of observable cost configurations possibly observed by player i in a given treatment. s stands for an element of S . Let $r_i(s)$ stand for the quantity chosen by player $j \neq i$ last time that configuration s arose. At the beginning of play, the function r_i is initialized by taking $r_i(s)$ to be the average quantity played by j players in period 1 in the treatment (across markets) in case configuration s arose in that period.

Let q_j^t be the quantity played by player j in period t .

In any period t , a decision and updating process takes place.

1. At the beginning of period t , player i observes the realized s and plays $b(r_i(s))$.
2. After observing the quantity chosen by the other player in t , player i updates $r_i(s)$ to $r_i(s) = q_j^t$.

A.2 Conditional imitation

We here specify the deterministic version of our conditional imitation learning rule.

A.2.1 Incomplete information treatments

Each player i privately observes her own cost. Thus, she can find herself in only two possible states $S = \{c_L, c_H\}$. She updates the two ‘exemplary’ quantities corresponding to those two states: $\mathbf{q}_i(c_L)$ and $\mathbf{q}_i(c_H)$. To simplify notation, in that case, we will write: \mathbf{q}_i^H and \mathbf{q}_i^L . At the beginning of play, the function \mathbf{q}_i is initialized by taking $\mathbf{q}_i(s)$ to be the average quantity played by j players in period 1 in the treatment (across markets) in case configuration s arose in that period.

At the end of each round t , player i checks whether the quantity chosen by player j in t would not be better, in terms of joint profit-maximization, than the exemplary quantity that she currently associates to her current cost type. If so, she updates the relevant exemplary quantity. She then proceeds to draw her cost level for period $t + 1$ and plays the corresponding exemplary quantity.

In other words, let q_i^t be the quantity played by player i in period t . Let $\pi_i(q_1, q_2 | c_k)$ be the profit to player i when player 1 plays q_1 and player 2 plays q_2 , and player i 's cost is c_k , $k \in \{L, H\}$.

Define:

$$\Delta_i^L = \left[\frac{1}{2}\pi_i(\mathbf{q}_i^L, \mathbf{q}_i^L|c_L) + \frac{1}{2}\pi_i(\mathbf{q}_i^L, \mathbf{q}_i^H|c_L) + \frac{1}{2}\pi_j(\mathbf{q}_i^L, \mathbf{q}_i^L|c_L) + \frac{1}{2}\pi_j(\mathbf{q}_i^L, \mathbf{q}_i^H|c_H) \right] \\ - \left[\frac{1}{2}\pi_i(q_j^t, q_j^t|c_L) + \frac{1}{2}\pi_i(q_j^t, \mathbf{q}_i^H|c_L) + \frac{1}{2}\pi_j(q_j^t, q_j^t|c_L) + \frac{1}{2}\pi_j(q_j^t, \mathbf{q}_i^H|c_H) \right].$$

Player i updates q_i^L at the end of period t iff i drew c_L in period t and $\Delta_i^L < 0$. In that case: assign $\mathbf{q}_i^L = q_j^t$. Define $\Delta_i^H, \Delta_j^L, \Delta_j^H$ similarly and adopt the homologous adjustment rule.

In other words, here is the decision and updating process.

1. At the beginning of period t , player i draws her cost. If c_k is realized, then she plays \mathbf{q}_i^k .
2. After observing the quantity chosen by the other player in t , she computes Δ_i^k .
3. She updates \mathbf{q}_i^k to $\mathbf{q}_i^k = q_t^j$ iff $\Delta_i^k < 0$.

A.2.2 Complete-information treatments

Under complete information, player i observes the cost type of j on top of her own cost. Thus, there are four possible observed cost configurations: $S = \{(c_L, c_L), (c_L, c_H), (c_H, c_L), (c_H, c_H)\}$, where the first variable stands for the cost drawn by player 1 and the second, for the cost drawn by player 2. In T-30-C, $c_L = c_H$ and S degenerates to a singleton.

Each player i keeps track of exemplary quantities: $\{\mathbf{q}_i(s), s \in S\}$. In treatment 29-31-C, we have: $\{\mathbf{q}_i(c_L, c_L), \mathbf{q}_i(c_L, c_H), \mathbf{q}_i(c_H, c_L), \mathbf{q}_i(c_H, c_H)\}$. At the beginning of play, the function \mathbf{q}_i is initialized by taking $\mathbf{q}_i(s)$ to be the average quantity played by j players in period 1 in the treatment (across markets) in case configuration s arose in that period.

In the symmetric states $\{(c_L, c_L), (c_H, c_H)\}$, player i plays $\mathbf{q}_i(c_L, c_L)$ or $\mathbf{q}_i(c_H, c_H)$, respectively, and, at the end of the period, she asks herself whether it would have been a good idea for her to play the quantity just chosen by j .

In the asymmetric states $\{(c_L, c_H), (c_H, c_L)\}$, player i plays $\mathbf{q}_i(c_L, c_H)$ or $\mathbf{q}_i(c_H, c_L)$, respectively, and, at the end of the period, she asks herself whether it would have been a good idea to play the quantity just chosen by j , *had the two roles (cost types) been switched*.

More precisely, in cost configuration (c_L, c_L) , define $\Delta_i^{(c_L, c_L)} = 2\pi_i(\mathbf{q}_i(c_L, c_L), \mathbf{q}_i(c_L, c_L)|c_L) - 2\pi_i(q_j^t, q_j^t|c_L)$. If $\Delta_i^{(c_L, c_L)} < 0$, then update $\mathbf{q}_i(c_L, c_L)$ to q_j^t at the end of period t .

In cost configuration (c_H, c_H) , define $\Delta_i^{(c_H, c_H)} = 2\pi_i(\mathbf{q}_i(c_H, c_H), \mathbf{q}_i(c_H, c_H)|c_H) - 2\pi_i(q_j^t, q_j^t|c_H)$. If $\Delta_i^{(c_H, c_H)} < 0$, then update $\mathbf{q}_i(c_H, c_H)$ to q_j^t .

In cost configuration (c_L, c_H) , define:

$$\Delta_i^{(c_L, c_H)} = \pi_i(\mathbf{q}_i(c_H, c_L), \mathbf{q}_i(c_L, c_H)|c_H) + \pi_j(\mathbf{q}_i(c_H, c_L), \mathbf{q}_i(c_L, c_H)|c_L) - \pi_i(q_j^t, \mathbf{q}_i(c_L, c_H)|c_H) - \pi_j(q_j^t, \mathbf{q}_i(c_L, c_H)|c_L).$$

If $\Delta_i^{(c_L, c_H)} < 0$, then update $\mathbf{q}_i(c_H, c_L)$ with q_j^t . (Mind the swap!)

In cost configuration (c_H, c_L) , define:

$$\Delta_i^{(c_H, c_L)} = \pi_i(\mathbf{q}_i(c_L, c_H), \mathbf{q}_i(c_H, c_L)|c_L) + \pi_j(\mathbf{q}_i(c_L, c_H), \mathbf{q}_i(c_H, c_L)|c_H) - \pi_i(q_j^t, \mathbf{q}_i(c_H, c_L)|c_L) - \pi_j(q_j^t, \mathbf{q}_i(c_H, c_L)|c_H).$$

If $\Delta_i^{(c_H, c_L)} < 0$, then update $\mathbf{q}_i(c_L, c_H)$ with q_j^t . (Mind the swap again!)

In T-30-C, this process obviously boils down to unconditional imitation of the quantity chosen by player j in the previous round.

A.3 Simulation results

When running simulations, we use stochastic versions of those deterministic rules. More specifically, Table A1 displays results about long-term behavior for those processes when, for some (dwindling) $\varepsilon > 0$, with probability $1 - \varepsilon$ a player follows the deterministic rule (“exploit”), while, with the remaining probability, she chooses a quantity at random (“explore”). For both dynamics, simulations were run for 1,000 markets and 1,000,000 iterations, using a step size for quantities of 0.01 and a per-period experimentation probability starting at $\varepsilon = 0.5$ and reduced by a factor of 10 every 50,000 iterations. Table A1 displays the limit points to which quantities converge.

Table A1: Summary statistics of simulations of learning dynamics

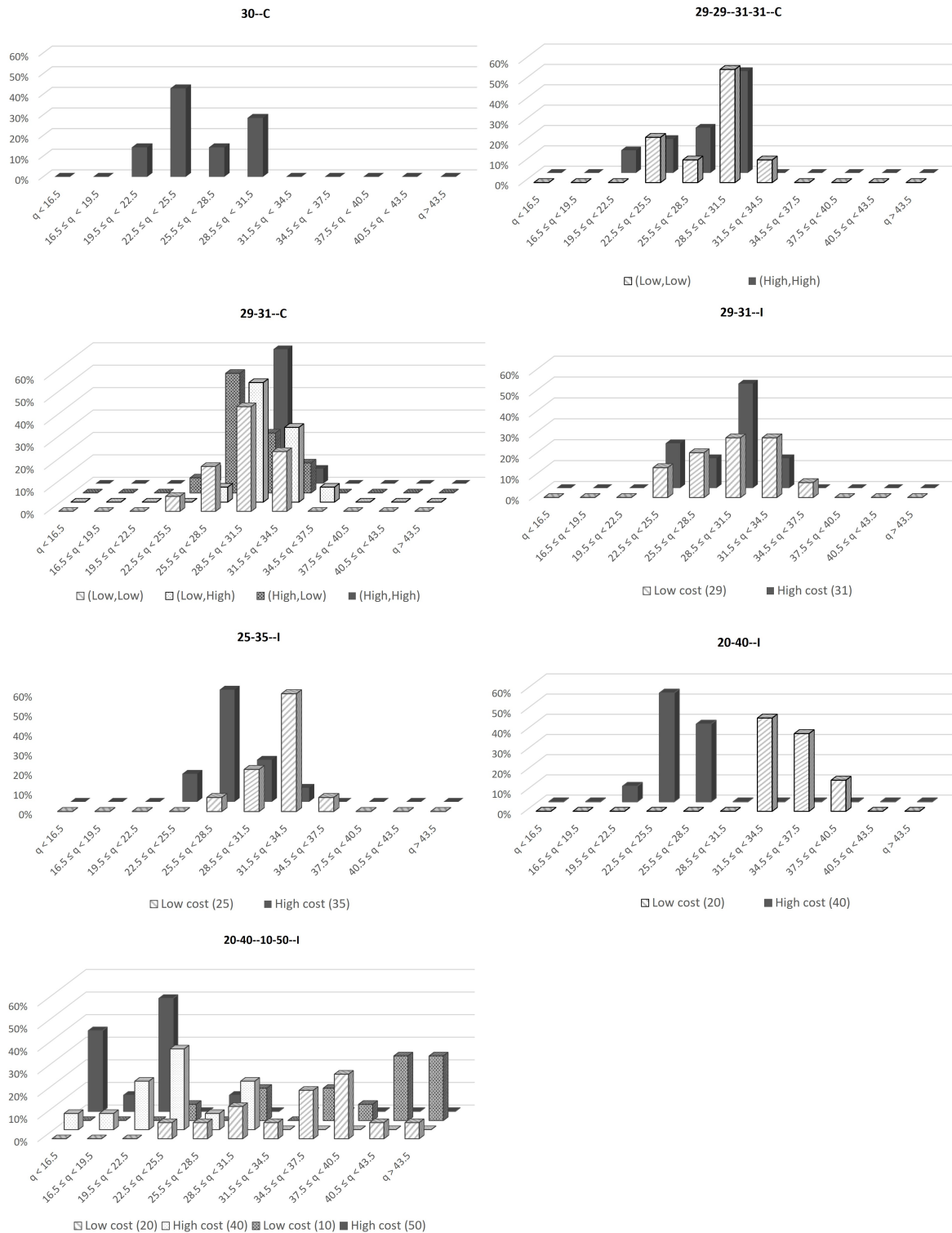
Treatment	Costs	Quantity in the BNE	“Best response” Convergence to	“Conditional imitation” Convergence to
30-C	$c = 30$	30	30.00 (0.000)	22.50 (0.075)
29-31-C ^a	$c_1^L = 29, c_2^L = 29$	30.33	30.33 (0.000)	22.73 (0.188)
	$c_1^L = 29, c_2^H = 31$	31	31.00 (0.000)	45.49 (0.018)
	$c_1^H = 31, c_2^L = 29$	29	29.00 (0.000)	0.01 (0.014)
	$c_1^H = 31, c_2^H = 31$	29.67	29.67 (0.000)	22.23 (0.159)
29-31-I	$c^L = 29$	30.5	30.50 (0.281)	22.68 (0.289)
	$c^H = 31$	29.5	29.50 (0.281)	22.30 (0.307)
25-35-I	$c^L = 25$	32.5	32.46 (1.427)	24.24 (0.834)
	$c^H = 35$	27.5	27.50 (1.424)	20.77 (0.850)
20-40-I	$c^L = 20$	35	34.75 (2.930)	26.18 (1.049)
	$c^H = 40$	25	24.90 (2.849)	18.89 (1.117)
20-40-10-50-I	$c_1^L = 20$	35	35.06 (5.257)	27.95 (1.182)
	$c_1^H = 40$	25	24.88 (5.361)	17.01 (1.193)
	$c_2^L = 10$	40	40.28 (3.547)	27.98 (1.019)
	$c_2^H = 50$	20	19.86 (3.72)	17.10 (1.175)

Notes: This table shows convergence results (asymptotes) of the adaptation dynamics (standard deviations in parentheses). For both the “best-response” and the “conditional imitation” dynamics, the simulations were run for 1,000 markets, for 1,000,000 iterations and an experimentation probability starting at $\varepsilon = 0.5$, which was reduced by a factor of 10 every 50,000 iterations. We do not show convergence results for treatment 29-29-31-31-C, as results are similar to the results for treatment 30-C, adjusted for the two symmetric cost configurations in this treatment.

B Additional material

B.1 Choices and adaptations

Figure A1: Average observed quantities per market



Notes: The panels in this figure show histograms of observed average quantities per market, using the data of all rounds.

Table A2: Summary statistics of adaptations

Treatment	Costs	Rounds 2-60				
		$q_{i,t}^{\text{BR}} - q_{i,t-1}$		$q_{i,t}^{\text{OBS}} - q_{i,t-1}$	$q_{i,t}^{\text{CI}} - q_{i,t-1}$	
30-C	$c = 30$	5.76 (1.65)	>**	0.05 (0.04)	>** (0.94)	-2.94 (0.94)
29-29-31-31-C	$c_1^L = 29, c_2^L = 29$	3.21 (1.07)	>**	0.03 (0.08)	>***	-3.58 (0.57)
	$c_1^H = 31, c_2^H = 31$	3.40 (1.00)	>***	-0.14 (0.06)	>***	-2.86 (0.49)
29-31-C ^a	$c_1^L = 29, c_2^L = 29$	1.00 (0.96)	≈	-0.17 (0.06)	>***	-3.37 (0.52)
	$c_1^L = 29, c_2^H = 31$	0.49 (0.81)	≈	0.51 (0.09)	>***	-3.14 (0.65)
	$c_1^H = 31, c_2^L = 29$	0.51 (0.83)	≈	-0.01 (0.16)	>***	-7.18 (0.67)
	$c_1^H = 31, c_2^H = 31$	0.96 (0.76)	≈	0.05 (0.14)	>***	-3.69 (0.48)
29-31-I	$c^L = 29$	1.51 (1.25)	≈	0.16 (0.06)	>***	-4.10 (0.70)
	$c^H = 31$	1.56 (1.16)	≈	-0.25 (0.07)	>***	-5.81 (0.98)
25-35-I	$c^L = 25$	0.26 (0.77)	≈	0.16 (0.05)	>***	-7.38 (0.56)
	$c^H = 35$	-0.46 (0.69)	≈	0.23 (0.08)	>***	-5.31 (0.82)
20-40-I	$c^L = 20$	-0.15 (0.71)	≈	-0.01 (0.11)	>***	-9.31 (0.54)
	$c^H = 40$	-0.24 (0.71)	≈	0.17 (0.05)	>***	-3.27 (0.50)
20-40-10-50-I	$c_1^L = 20$	-0.36 (1.91)	≈	0.36 (0.12)	>***	-8.07 (1.58)
	$c_1^H = 40$	2.0 (1.27)	≈	0.13 (0.04)	>***	-5.63 (1.51)
	$c_2^L = 10$	1.34 (2.03)	≈	0.11 (0.08)	>***	-11.16 (1.75)
	$c_2^H = 50$	1.48 (1.17)	≈	-0.13 (0.09)	>**	2.31 (0.94)

Notes: This table shows averages of individual adaptation quantities per market with standard errors of the mean in parentheses. ^a In treatment 29-31-C, adaptation quantities refer to those of player 1. Test statistics refer to two-tailed Wilcoxon tests. The units of observation for the tests are averages of individual quantities per market. The symbols ***, ** indicate significance at the 1%, 5% level, respectively.

B.2 Regression analysis

Given these clear level effects regarding the relation between the observed adaptations on the one hand and those prescribed by BR and CI on the other hand, estimating a model, as used in the literature (see, e.g., Huck et al. 1999, 2002, Rassenti et al. 2000), of the form

$$q_i^t - q_i^{t-1} = \beta_0 + \beta_1(BR_i^{t-1} - q_i^{t-1}) + \beta_2(CI_i^{t-1} - q_i^{t-1}), \quad (\text{B.1})$$

appears unsuitable for the analysis of our data. This is because this model only picks up correlations between the dependent and the independent variables, but not—as there is only one constant—the observed differential “closeness” of the two predictors to the observed adaptations in the various treatments.

We prefer an approach that enables us to capture and formally test the observed level and closeness effects shown in Figure 1. To do so, we define the following dummy variable labeled “INDEX” for each individual decision observed in the experiment:

$$\text{INDEX} = \begin{cases} 1 & \text{if } |\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{CI}}| \\ 0 & \text{otherwise.} \end{cases} \quad (\text{B.2})$$

That is, the variable INDEX is equal to 1 if the observed adaptation (Δq^{OBS}) is closer to the one prescribed by best-response behavior (Δq^{BR}) rather than conditional-imitation behavior (Δq^{CI}), and 0 otherwise. The variable INDEX will serve as the dependent variable in probit panel regressions reported below. In these regressions, we attempt to relate this variable to several predictors, which we describe next.

First, we focus on cost asymmetry between players. Note that players in treatments 30–C, 29–29–31–31–C and all incomplete-information treatments except for treatment 20–40–10–50–I are *ex-ante* symmetric. That is, upon being informed about their costs, subjects in these treatments either know that they have the same costs or cannot be sure that they have different costs. This is different in treatments 29–31–C and treatment 20–40–10–50–I. In the latter treatment, subjects are *ex-ante* and *ex-post* asymmetric in terms of costs. In treatment 29–31–C, subjects are *ex-ante* symmetric, but not *ex-post* when $(c_i, c_j) = (29, 31)$ or $(c_i, c_j) = (31, 29)$. We define the dummy variable “AsymCosts” to be equal to 1 if an observation stems from treatment 29–31–C, and 0 otherwise. We exclude treatment 20–40–10–50–I from our regression analysis, as the CI dynamics are not meaningful in this treatment. After all, subjects in this treatment know that the other subject in the market has different costs in all circumstances and should hence not be imitated (see footnote 13 in the main text).

Second, we capture incomplete information with a dummy variable “PrivInfo,” which is equal to 1 if an observation stems from one of the incomplete-information treatments, and 0 otherwise.

Third, we define the dummy variable “RandSym,” to be equal to 1 if an observation stems from

treatment 29-29-31-31-C, and 0 otherwise. Variable “RandSym” captures the “stochasticity” of the cost assignment in the symmetric and complete-information treatment 29-29-31-31-C.

We ran panel probit regressions of the form

$$P(\text{INDEX} = 1) = \Phi(\alpha_0 + \alpha_1 \times \text{AsymCosts} + \alpha_2 \times \text{PrivInfo} + \alpha_3 \times \text{RandSym}), \quad (\text{B.3})$$

with INDEX as part of the LHS and the variables AsymCosts, PrivInfo and RandSym as part of the RHS, Φ being the normal distribution function, and clustering observations at the market level. The results are reported in Table A3. To aid the interpretation of the results, note that, given the definition of the dependent variable in equation (B.2), a positive sign of, for instance, α_2 means that subjects in the incomplete-information treatments are more likely to act in accordance with best-response than with conditional-imitation behavior. We infer from columns (1) and (2) of Table A3 that both AsymCosts and PrivInfo are positive and statistically significant (the former only weakly so), while RandSym is also positive but insignificant. For the results in columns (3) and (4), we redefine the variable AsymCosts to be 1 when an observation stems from treatment 29-31-C *and* the two players have different costs, and 0 otherwise. This substantially reduces the size of all RHS coefficients, keeps the significance levels of PrivInfo and RandSym, but increases the significance of the AsymCosts predictor. Because the variable RandSym is not significant in columns (1) to (4), for the results in columns (5) and (6) we pool the data of treatments 30-C and 29-29-31-31-C and drop the variable RandSym from the regression, so that the two symmetric treatments with complete information become the new reference group. This leaves the estimated effects of asymmetric costs and incomplete information basically unchanged.¹ The results in all specifications indicate that subjects in the treatments with either cost asymmetry or incomplete information choose significantly more often in accordance with best-response behavior than with imitation.²

B.3 Robustness checks and additional evidence

We check the predictive power of the BR dynamics in conjunction with (a) alternative versions of the conditional imitation dynamics discussed so far, and (b) alternative *unconditional* imitation dynamics.

Conditional imitation with BNE initial conditions. In a first robustness check, we keep the original conditional imitation process defined above. However, we initialize the dynamics with the quantities predicted by the BNE in the various treatments, and not, as we did for the results reported in Table A3, with

¹We also ran a regression of the form reported in column (5) in Table A3 including the data of treatment 20-40-10-50-I. For this purpose, we defined variable AsymCosts to be 1 when an observation stems from this treatment or, as before, from treatment 29-31-C. This exercise delivers qualitatively the same results regarding the effects of variables AsymCosts and PrivInfo, and a significantly negative effect of the interaction of these two variables. We note again that assuming conditional-imitation behavior in treatment 20-40-10-50-I is not meaningful.

²Our conclusions do not change if, in our regressions, instead of the last “relevant” round, we define our learning rules with respect to the last round played, independently of cost draws.

Table A3: Regression results

	(1)	(2)	(3)	(4)	(5)	(6)
	<u>Baseline</u>		<u>AsymCosts</u>		<u>30-C and 29-29-31-31-C</u>	
		Marginal		Marginal		Marginal
		Effects		Effects		Effects
AsymCosts	1.019*	0.274*	0.319**	0.086**	0.319**	0.086**
	(0.547)	(0.144)	(0.130)	(0.035)	(0.129)	(0.035)
PrivInfo	1.085**	0.292**	0.493**	0.133**	0.485**	0.131**
	(0.547)	(0.144)	(0.245)	(0.065)	(0.222)	(0.058)
RandSym	0.612	0.165	0.018	0.005		
	(0.611)	(0.164)	(0.368)	(0.099)		
Constant	-0.628		-0.035		-0.027	
	(0.532)		(0.208)		(0.180)	
N	9,558	9,558	9,558	9,558	9,558	9,558
Log LL	-4818		-4810		-4810	

Notes: This table shows the results of panel probit regressions with the dependent variable INDEX, which is equal to 1 if $|\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{CI}}|$, and 0 otherwise. The reference group in columns (1)-(2) is data from treatment 30-C. The reference group in columns (3)-(4) is data from treatment 30-C and 29-31-C when the two players have the same cost. The reference group in columns (5)-(6) is data from 30-C and 29-29-31-31-C combined. The symbols ***, **, * indicate significance at the 1%, 5%, 10% level.

the observed average quantities chosen by the other player in the relevant cost configuration in period 1. We refer to this version of the conditional imitation dynamics as “CI-BNE Initial”. In a new set of regressions, we proceeded as we did above, using the same definitions of the LHS dummy variable INDEX and the definitions of the RHS variables AsymCosts, PrivInfo and RandSym. The results are shown in columns (1) and (2) in Table A4. We still find that the introduction of asymmetric costs and incomplete information (weakly) increases the probability that behavior accords more with best-response than with imitation behavior. However, in comparison to the corresponding results in columns (1) and (3) in Table A3, there are some changes in significance levels.

Conditional imitation with learning from other and own decisions. In a second robustness check, we change the imitation process and let a player learn not only from the quantities chosen by the other player in a market, but also from her own quantities. That is, at the end of period t , player i considers not only updating her record of ‘exemplary’ quantities on the basis of player j ’s choice but also (possibly for a different cost configuration) on the basis of her own choice.³ We refer to this version of the conditional-

³If players followed the deterministic version of CI, this would not matter as they would always play the current value for the exemplary quantity (they would never ‘explore’). However, in practice, we expect players not to follow the rule deterministically

Table A4: Regressions results: Robustness checks

	(1)	(2)	(3)	(4)	(5)	(6)
	BR versus “CI–BNE Initial”		BR versus “CI–Other and Own”		BR versus “UI”	
	Baseline	AsymCosts Redefined	Baseline	AsymCosts Redefined	Baseline	AsymCosts Redefined
AsymCosts	1.017* (0.546)	0.319** (0.130)	1.007* (0.552)	0.112 (0.111)	1.539*** (0.269)	0.187*** (0.068)
PrivInfo	1.003* (0.544)	0.413* (0.241)	1.239** (0.554)	0.585** (0.263)	1.454*** (0.252)	0.449** (0.199)
RandSym	0.610 (0.610)	0.018 (0.367)	0.812 (0.628)	0.157 (0.397)	0.985*** (0.325)	−0.022 (0.285)
Constant	−0.625 (0.531)	−0.034 (0.208)	−0.625 (0.536)	0.030 (0.219)	−1.422*** (0.240)	−0.419** (0.180)
N	9,558	9,558	9,558	9,558	9,558	9,558
Log LL	−4893	−4885	−4502	−4505	−5629	−5647

Notes: This table shows the results of panel probit regressions with the dependent variable INDEX. In columns (1) and (2), INDEX is defined as in Table A3. In columns (3) and (4), INDEX is equal to 1 if $|\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{CI-Other and Own}}|$ and 0 otherwise, where “CI–Other and Own” refers to conditional imitation with learning from other and own decisions. In columns (5) and (6), INDEX is equal to 1 if $|\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{UI}}|$ and 0 otherwise, where “UI” refers to unconditional imitation. The reference group in all regressions is data from treatment 30-C. The symbols ***, **, * indicate significance at the 1%, 5%, 10% level.

imitation dynamics as “CI–Other and Own”. In a new set of regressions, we proceeded as we did before, keeping the definitions of the variables AsymCosts, PrivInfo and RandSym, but coding the LHS dummy variable INDEX to be equal to 1 when $|\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{CI-Other and Own}}|$, and 0 otherwise. The results are shown in columns (3) and (4) in Table A4. We again find that the introduction of asymmetric costs and incomplete information significantly increases the probability that behavior accords more with best-response than with imitation behavior.

Unconditional imitation. In a third and final robustness check, we consider an unconditional imitation dynamics, which we refer to as “UI.” According to those dynamics, player i chooses some quantity in round $t = 1$ and in round $t \geq 2$ simply chooses what the other player chose in the previous relevant round, that is, independently of whether it increases expected joint payoffs or not. Note that this imitation rule is just the learning rule “imitate the average,” also used in Huck et al. (1999, 2002), which in our duopoly context simply means “imitate the other firm.”⁴ In a new set of regressions, we proceeded as we did above, and to ‘experiment’ with some ‘new’ quantities.

⁴Note that the rule “imitate the average” should not be confused with the imitation rule analysed by Vega-Redondo (1997), in which a player, when given the opportunity to revise its choice, imitates the firm with the highest payoff in the last round or chooses randomly with some positive probability. Note that our “UI” dynamics do not converge and perpetually jumps between the initial choices of the two players in the various cost configurations.

keeping the definitions of the variables *AsymCosts*, *PrivInfo* and *RandSym*, but coding the dummy variable *INDEX* to be equal to 1 when $|\Delta q^{\text{OBS}} - \Delta q^{\text{BR}}| < |\Delta q^{\text{OBS}} - \Delta q^{\text{UI}}|$, and 0 otherwise. The results are shown in columns (5) and (6) in Table A4. We find again similar results as before: The introduction of asymmetric costs and incomplete information significantly increases the probability that behavior accords more with best-response than with imitation behavior.⁵ Note, however, that variable *RandSym* is now significant in column (5).

B.4 Additional evidence: Use of payoff simulator

The analysis of the recorded simulation data provides additional evidence for the diverse decision approaches used by the subjects in the different treatments. Recall that according to our experimental design, before making their quantity decisions, subjects had the opportunity to simulate different market scenarios with the help of a profit calculator. More precisely, they could try different pairs of quantities (one for themselves and one for the opponent) and were then shown the implied profit for them. The analysis of the simulation data reveals that the decision approach taken in treatment 30–C clearly differs from the approach used in the treatments with either cost asymmetry or incomplete information. For example, subjects in 30–C used the profit calculator least often. The average number of simulations per subject and round is with 1.46 the lowest compared to all other treatments. The actual quantity decision in treatment 30–C was also based least often on the simulation results. In treatment 30–C, in about 12% of the 60 rounds, the subjects’ actual quantity choice was equal to one of their own simulated quantities, whereas this number rose up to 21.34% in 29-29-31-31–C, 28.87% in 29-31–C, and 31.96% in 29-39–I, respectively. In 30–C compared to all other treatments, the first simulated opponent’s (own) quantity equals the own (opponent’s) actual quantity in the previous round 49% (35%) of all simulations. In all other treatments, those numbers are clearly lower and quite similar in size (see Table A5.)⁶

The observed “discontinuity” in behavior is also confirmed by subjects’ answers in the post-experimental questionnaire regarding the question of how they came to their decisions in the experiment. For example, in 30–C, the word “collusion” or a description of an attempt to achieve collusion was mentioned by 71% of the subjects, in 29-29-31-31–C, by 47% while the corresponding share in the treatments with any level of cost asymmetry or incomplete information is not higher than 39%.

⁵For more results along these lines, see Argenton et al. (2022).

⁶The simulation data are available upon request.

Table A5: Statistics from choice simulations prior to actual choices

Treatment	# simulations per subject & round (average)	actual quantity choice was one of simulated quantities (average)	actual quantity choice was last simulated own quantity other quantity (relative frequency)		first simulated own quantity was other quantity last round (relative frequency)	first simulated other quantity was own quantity last round (relative frequency)
30-C	1.46	12.21	40%	41%	35%	49%
29-29-31-31-C	2.09	21.34	42%	31%	26%	31%
29-31-C	3.10	28.87	40%	26%	21%	30%
29-31-I	4.17	31.96	42%	20%	27%	33%
25-35-I	3.23	27.07	49%	19%	23%	23%
20-40-I	3.33	29.89	42%	22%	22%	24%
20-40-10-50-I	1.84	16.52	36%	12%	15%	13%

Notes: This table shows statistics from subjects' choice simulations prior to actual choices.

C Instructions

Below we reproduce the translated version of the instructions. For the original instructions (in German), please contact one of the authors. The variants in the instructions for the different treatments are indicated.

Instructions

Please read these instructions carefully. If there is anything you do not understand, please indicate this by raising your hand. We will then answer your questions privately.

In this experiment, you will make decisions repeatedly. In this process you can earn money. How much money you earn depends on your decisions, those of another participant and random moves. The instructions use the fictitious money unit ECU (Experimental Currency Unit). At the end of the experiment, your payouts are converted into euros (see below).

Your anonymity towards us as well as towards the other participants will be preserved.

In this experiment you represent a company that produces and sells one and the same product together with another company on one market. You remain assigned to the same other participant throughout the experiment. All companies always have only one decision to make, namely which quantities they want to produce.

The production costs per unit of your and the other company are determined as follows:

[30-C]:

- The production costs per unit of your company are 30 ECU.
- The production costs per unit of the other company in your market are 30 ECU.

Afterwards you and the other company decide simultaneously on your quantity.

[29-29-31-31-C]:

Regarding the production costs per unit of your company and the other company in one round, the following holds:

- with a probability of 50% the production costs per unit of your company and the other company will be 31 ECU
- with a probability of 50% the production costs per unit of your company and the other company will be 29 ECU

In each round, the production costs per unit will be chosen randomly, but they will be the same for both, your company and the other company. Before you decide on the quantity of your company in a round, the production costs per unit are determined and reported to you. Afterwards you and the other company decide simultaneously on your quantity.

[29-31-C]:

- Regarding the production costs per unit of your company in one round the following holds: with a probability of 50% they will be 31 ECU and with a probability of 50% they will be 29 ECU.
- Regarding the production costs per unit of the other company in one round the following holds: with a probability of 50% they will be 31 ECU and with a probability of 50% they will be 29 ECU.

The production costs per unit of your company and the other company will be chosen independently of each other. Before you decide on the quantity of your company in a round, the production costs per unit of your and the other company are randomly determined and reported to you. Afterwards you and the other company decide simultaneously on your quantity.

[29-31-I]:

- Regarding the production costs per unit of your company in one round the following holds: with a probability of 50% they will be 31 ECU and with a probability of 50% they will be 29 ECU.
- Regarding the production costs per unit of the other company in one round the following holds: with a probability of 50% they will be 31 ECU and with a probability of 50% they will be 29 ECU.

The production costs per unit of your company and the other company will be chosen independently of each other. Before you decide on the quantity of your company in a round, the production costs per unit of your company are randomly determined and reported to you. Similarly the production costs per unit for the other company are determined randomly. Each company learns only its own production costs per unit, but not those of the other company. Afterwards you and the other company decide simultaneously on your own quantity.

[25-35-I]:

- Regarding the production costs per unit of your company in one round the following holds: with a probability of 50% they will be 35 ECU and with a probability of 50% they will be 25 ECU.
- Regarding the production costs per unit of the other company in one round the following holds: with a probability of 50% they will be 35 ECU and with a probability of 50% they will be 25 ECU.

The production costs per unit of your company and the other company will be chosen independently of each other. Before you decide on the quantity of your company in a round, the production costs per unit of your company are randomly determined and reported to you. Similarly the production costs per unit for the other company are determined randomly. Each company learns only its own production costs per unit, but not those of the other company. Afterwards you and the other company decide simultaneously on your own quantity.

[20-40-I]:

- Regarding the production costs per unit of your company in one round the following holds: with a probability of 50% they will be 40 ECU and with a probability of 50% they will be 20 ECU.
- Regarding the production costs per unit of the other company in one round the following holds: with a probability of 50% they will be 40 ECU and with a probability of 50% they will be 20 ECU.

The production costs per unit of your company and the other company will be chosen independently of each other. Before you decide on the quantity of your company in a round, the production costs per unit of your company are randomly determined and reported to you. Similarly the production costs per unit for the other company are determined randomly. Each company learns only its own production costs per unit, but not those of the other company. Afterwards you and the other company decide simultaneously on your own quantity.

[20-40-10-50-I]:

- Regarding the production costs per unit of your company in one round the following holds: with a probability of 50% they will be 40 ECU [**50 ECU**] and with a probability of 50% they will be 20 ECU [**10 ECU**].
- Regarding the production costs per unit of the other company in one round the following holds: with a probability of 50% they will be 50 ECU [**40 ECU**] and with a probability of 50% they will be 10 ECU [**20 ECU**].

The production costs per unit of your company and the other company will be chosen independently of each other. Before you decide on the quantity of your company in a round, the production costs per unit of your company are randomly determined and reported to you. Similarly the production costs per unit for the other company are determined randomly. Each company learns only its own production costs per unit, but not those of the other company. Afterwards you and the other company decide simultaneously on your own quantity.

The market price (which can be between 120 ECU and 0 ECU) depends on the total quantity offered by your company and the other company. The following important rule applies: the higher the total quantity of both companies, the lower the price that will be on the market. Moreover, above a certain total quantity, the price becomes zero. More precisely, the price per unit is determined in each round as follows:

$$\text{Price} = 120 - \text{quantity of your company} - \text{quantity of the other company}$$

That means, that in each round the price is equal to the difference between 120 and the total quantity offered by your and the other company. Furthermore, if the total quantity offered by your company and the other company is greater than or equal to 120, the market price is zero.

Your profit per unit in a round is the difference between the market price and your production cost per unit in that round. Note that you make a loss if the market price is less than your unit costs. Your profit in each round is thus equal to the profit per unit times the quantity you chose.

In each round, the quantities of the two companies are recorded, the corresponding price is determined and the respective profits are calculated.

From the second round on, you will be told in each round the quantity of the other company and your own profit of the previous round. For your information, you will be shown your production costs per unit in the previous round and your own quantity in the previous round [**Complete Information-treatments**]: as well as the production costs per unit of the other company. [**Incomplete Information-treatments**]: However, you will not see the production costs per unit of the other company in the previous round.

Before making your choice, you can also simulate your decisions. You can do this on the left side of the decision screen. Here you simply enter any quantity of your own and any quantity of the other company into the two fields and then press the “Compute”-button. In the upper left corner of the screen, you can then see what profit would result for you in that case.

When you have decided on a quantity, enter it in the field on the right side of the screen and press the “OK”-button. Any number between 0 and 120 with two digits after the decimal point can be chosen as a quantity.

The experiment consists of 60 rounds.

Your total payment is the sum of your payments per round. At the end of the experiment, your payments will be converted to Euros, where 3000 ECU = 1€. At the beginning of the experiment, you will receive a (one-time) initial endowment of 7500 ECU. [**In treatment 29-29-31-31-C**]: You will receive 6 EUR for showing up on time.⁷

If you make a loss in a round, it will be deducted from your previous profit (or from your initial endowment).

If there is anything you do not understand, please indicate this by raising your hand. We will then answer your questions privately.

⁷The change of the wording was due to change in the lab rules at the time the treatment 29-29-31-31-C was conducted.