

The Market Allocation of Strategic Positions and the Destruction of Trust

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Trusting and trustworthy actions in sequential decision-making environments is a primary finding in behavioral game theory. We ask whether the levels of these actions persist when scarce bargaining rights are allocated by a competitive pricing process? We examine the effects of a competitive allocation of decision-maker rights on trust and trustworthiness. In laboratory experiments, we auction off the participation slots of a trust game by a multiple-unit ascending-clock auction. In the control treatment, subjects are randomly selected to play the trust game after paying entry fees equal to the prices generated in these auctions. We find that subjects show significantly less trust and trustworthiness when participation rights are auctioned. Both the send amount and return amounts converge to the subgame perfect equilibrium prediction, and subjects earn lower payoffs on average. We present a behavioral model in which players' other-regarding preferences are private information. We show that in a competitive equilibrium, less trustworthy individuals are selected into the trust game. Rational expectations about this selection effect leads to reduced trusting and trustworthy behavior and a greater likelihood of collapse to the standard non-cooperative sub-game perfect equilibrium outcome versus randomly allocated participation rights.