

CREATIVITY AND INCENTIVES

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Abstract

Creativity is a complex and multi-dimensional phenomenon with tremendous economic importance. A crucial question for economists and for firms is the interplay of incentives and creativity. We present experiments where subjects face creativity tasks where, in one case, ex-ante goals and constraints are imposed on their answers (“closed” tasks), and in the other case no restrictions apply (“open” tasks). The effect of tournament incentives on creativity is then tested. Our experimental findings provide striking evidence that financial incentives in the form of tournament competition affect creativity in “closed” (constrained) tasks, but do not facilitate creativity in “open” (unconstrained) tasks, whereas being ranked relative to one’s peers is an effective non-monetary incentive with both types of tasks. We develop a structural model that allows for subjects’ heterogeneity in being affected by the openness of the task, and then use the structural model to not only estimate creative output in tournaments but also to predict creative output in two counterfactual incentives schemes: piece rate and target bonus. (JEL: C91, D03, O39)

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