

COMPETITION FOR STATUS CREATES SUPERSTARS: AN EXPERIMENT ON PUBLIC GOOD PROVISION AND NETWORK FORMATION

Boris van Leeuwen

Department of Economics and CentER,
Tilburg University

Theo Offerman

CREED, University of Amsterdam

Arthur Schram

CREED, University of Amsterdam
and Department of Economics, European
University Institute

Abstract

We investigate a mechanism that facilitates the provision of public goods in a network formation game. We show how competition for status encourages a core player to realize efficiency gains for the entire group. In a laboratory experiment we systematically examine the effects of group size and exogenously monetarized status rents. The experimental results provide very clear support for the concept of challenge-freeness, a refinement that predicts when a repeated game equilibrium will be played, and if so which one. Two control treatments allow us to reject the possibility that these observations are driven by social preferences, independently of the competition for status. (JEL: C91, D85, H41)

The editor in charge of this paper was Juuso Välimäki.

Acknowledgments: We thank Vincent Buskens, Eric van Damme, Sanjeev Goyal, Matthew Jackson, Jérôme Hergueux, Debraj Ray, Giorgia Romagnoli, Joel Sobel, Juuso Välimäki, and two anonymous referees of this journal for their helpful suggestions. Financial support from the Research Priority Area Behavioral Economics of the University of Amsterdam and of the ANR - Labex IAST is gratefully acknowledged. This paper supersedes our working paper “Superstars Need Social Benefits: An Experiment on Network Formation” (van Leeuwen et al., 2013).

E-mail: b.vanleeuwen@uvt.nl (van Leeuwen); t.j.s.offerma@uva.nl (Offerman); schram@uva.nl (Schram)