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| Report No. | HIAS-E-34 |
| Title | The Advantage of Dual Discrimination in Lottery Contest Games |
| Author(s) | Yosef Mealem ^(a) Shmuel Nitzan ^{(b),(c)} Takashi Ui ^(d) |
| Affiliation | <p>(a) The School of Banking & Finance, Netanya Academic College, Netanya, Israel, 42365</p> <p>(b) Department of Economics, Bar-Ilan University, Ramat Gan, Israel, 52900</p> <p>(c) Hitotsubashi Institute for Advanced Study, Hitotsubashi University</p> <p>(d) Department of Economics, Hitotsubashi University</p> |
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| Abstract | <p>In a simple class of contest games, the designer can combine two types of discrimination: a change of the contestants' prize valuations subject to a balanced-budget constraint (direct discrimination), as well as a bias of the impact of their efforts (structural discrimination). Applying dual discrimination, the designer reduces (increases) the higher (lower) prize value up to a minimal (maximal) level, but suitably increases (reduces) the corresponding prize share. Our main result establishes that in some cases this dual discrimination is advantageous and can yield almost the maximal possible efforts - the highest valuation of the contested prize. The efforts in our setting can therefore be larger than those obtained under alternative contests with optimal structural discrimination. This is true in particular with respect to the optimally biased simple N-player lottery, Franke et al. (2013). In contrast to the main findings in Franke et al. (2014a, 2014b), in our setting, efforts under the simple lottery are not necessarily smaller than those under an optimally biased N-player all-pay auction. Finally, the exclusion principle noted in Baye et al. (1999) — the elimination of the strongest player - is not valid under dual discrimination.</p> |
| Keywords | contest design, dual discrimination, direct discrimination, balanced-budget-constraint, structural discrimination |
| JEL | D70, D72, D74, D78 |