

Schweitzer, Paul; Segev, Ella

Working Paper

The optimal prize structure of symmetric Tullock contests

SFB/TR 15 Discussion Paper, No. 250

Provided in Cooperation with:

Free University of Berlin, Humboldt University of Berlin, University of Bonn, University of Mannheim, University of Munich, Collaborative Research Center Transregio 15: Governance and the Efficiency of Economic Systems

Suggested Citation: Schweitzer, Paul; Segev, Ella (2008) : The optimal prize structure of symmetric Tullock contests, SFB/TR 15 Discussion Paper, No. 250, Sonderforschungsbereich/Transregio 15 - Governance and the Efficiency of Economic Systems (GESY), München, <https://doi.org/10.5282/ubm/epub.13302>

This Version is available at:

<https://hdl.handle.net/10419/94176>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



GOVERNANCE AND THE EFFICIENCY
OF ECONOMIC SYSTEMS
GESY

Discussion Paper No. 250
**The optimal prize structure
of symmetric Tullock contests**

Paul Schweinzer*
Ella Segev**

*Paul Schweinzer, Department of Economics, University of Bonn
Lennéstraße 37, 53113 Bonn, Germany
paul.schweinzer@uni-bonn.de

*Ella Segev, Department of IE&M Ben Gurion University of the Negev
1 Ben-Gurion Blvd, Beer Sheva, 84105, Israel
ellasgv@bgu.ac.il

October 2008

Financial support from the Deutsche Forschungsgemeinschaft through SFB/TR 15 is gratefully acknowledged.

Sonderforschungsbereich/Transregio 15 · www.sfbtr15.de
Universität Mannheim · Freie Universität Berlin · Humboldt-Universität zu Berlin · Ludwig-Maximilians-Universität München
Rheinische Friedrich-Wilhelms-Universität Bonn · Zentrum für Europäische Wirtschaftsforschung Mannheim

Speaker: Prof. Dr. Urs Schweizer · Department of Economics · University of Bonn · D-53113 Bonn,
Phone: +49(0228)739220 · Fax: +49(0228)739221

The optimal prize structure of symmetric Tullock contests*

Paul Schweinzer

Department of Economics
University of Bonn
Lennéstraße 37, 53113 Bonn, Germany
paul.schweinzer@uni-bonn.de

Ella Segev

Department of IE&M
Ben Gurion University of the Negev
1 Ben-Gurion Blvd, Beer Sheva, 84105, Israel
ellasgv@bgu.ac.il

Abstract

We show that the optimal prize structure of symmetric n -player Tullock tournaments assigns the entire prize pool to the winner, provided that a symmetric pure strategy equilibrium exists. If such an equilibrium fails to exist under the winner-take-all structure, we construct the optimal prize structure which improves existence conditions by dampening efforts. If no such optimal equilibrium exists, no symmetric pure strategy equilibrium induces positive efforts. (JEL C7, D72, J31. Keywords: *Tournaments, Incentive structures, Rent seeking.*)

1 Introduction

It is well known that “an income maximizing contest administrator obtains the most rent-seeking contributions when he makes available a single, large prize” Clark and Riis (1998b). Less, however, is known about effort maximizing prizes in Tullock contests when an equilibrium supporting this winner-take-all structure does not exist or if non-linear costs accompany the outlays of more than two contestants. Unfortunately, both these cases typically arise in practical applications. We show that with symmetric players, the winner-take-all prize structure induces maximal efforts regardless of the number of players or their effort cost, provided that a symmetric pure strategy equilibrium exists. In cases where such an equilibrium fails to exist under the winner-take-all prize structure, we construct optimal prizes which improve existence conditions by dampening excessive efforts. If no such equilibrium exists, no symmetric pure strategy equilibrium induces positive efforts. As any optimal equilibrium leaves zero utility to the contestants in order to maximize efforts, the highest achievable equilibrium effort is the same for all symmetric equilibria. This aspect of our results

*Thanks for helpful comments to Alex Gershkov, Benny Moldovanu, Kai Konrad, Johannes Münster, and Tymofiy Mylovanov. Financial support from the German Science Foundation through SFB/TR 15 is gratefully acknowledged as is the hospitality of MEDS, Northwestern University, who hosted part of our efforts. (October 2, 2008)

resembles what was shown by Barut and Kovenock (1998) for the fully discriminating, complete information all-pay auction (which is the limit case of our setup). Since utility is zero for any effort choice in the support of their mixed equilibria, they derive—in contrast to our results—the near total arbitrariness of prize structures. Adding incomplete information to the all-pay auction setup, Moldovanu and Sela (2001) show that more than one prize is optimal when contestants have convex costs. It may thus come as a surprise that our optimal prize structures are independent of the curvature of costs. The reason for this disparity is that their heterogenous players have private effort costs which affect bidding behavior. Intuitively, a second prize in an asymmetric contest can be desirable for the maximization of total efforts because a single first prize may undermine the incentives of both weak contestants expecting not to win and of strong contestants believing to be able to win with little effort. Szymanski and Valletti (2005) confirm this intuition in an asymmetric Tullock contest.¹ We show that, as such, multiple prizes are not optimal in symmetric Tullock contests but multi-prize configurations may be attractive in order to *dampen* incentives to obtain equilibrium existence when equilibria do not exist under the winner-take-all configuration.

2 Model and results

We consider a set \mathcal{N} of $n > 1$ symmetric, risk neutral players engaging in a contest where any player $i \in \mathcal{N}$ exerts effort $e_i \in [0, \infty)$. There is a fixed prize pool $P > 0$ from which prizes P^1, P^2, \dots, P^n , $P = \sum_l P^l$, awarded to the contest winner, second etc. are taken. The contest satisfies limited liability and the designer sets $P^l \geq 0$, $l = 1, \dots, n$ in order to maximize the sum of efforts. Denote the vector of all players' efforts by $\hat{e} = (e_1, e_2, \dots, e_n)$. Then the winning probability of player i exerting effort e_i with her opponents choosing \hat{e}_{-i} is given by the Tullock success function as²

$$f_i^1(\hat{e}) = \frac{e_i^r}{\sum_{j \in \mathcal{N}} e_j^r} \text{ for } r > 0.$$

We define $f_i^1(0) = 1/n$ for completeness. The probabilities of winning the second, third prize etc. f_i^2, f_i^3, \dots are given by the nested Tullock success function, i.e. by recursively applying the above success function to the set of players without the winners of the previous stages. Hence player i chooses her effort e_i in order to maximize her utility

$$\arg \max_{e_i} \sum_{l=1}^n (f_i^l(e_i, \hat{e}_{-i}) P^l) - c(e_i) \quad (1)$$

where we assume $c(e_i)$ to be monotonic. Assuming the existence of a symmetric equilibrium in pure strategies, our first result shows that the winner-take-all structure induces the highest efforts for

¹ A recent and comprehensive review of the tournaments literature including the Tullock contest is Konrad (2008). It allows us to omit all but the most relevant references here.

² Skaperdas (1996) argues that the Tullock form is less special than one might believe. In particular, he shows that it is the only ratio-based function fulfilling a small set of intuitive desiderata.

arbitrary costs.³ All proofs can be found in the appendix.

Proposition 1. *Given equilibrium existence, the Tullock tournament which induces the highest sum of equilibrium efforts from symmetric contestants assigns the whole prize pool to the winner.*

In the second proposition we generalize Clark and Riis (1998b) in deriving an equilibrium existence condition for the winner-take-all prize structure. From now on, we restrict attention to cost functions of the form $c(e) = ae^b$ with $a, b > 0$ for expositional simplicity.⁴

Proposition 2. *Existence of a symmetric pure strategy equilibrium under the winner-take-all prize structure $P^1 = P$ is ensured if and only if*

$$\frac{r}{b} \leq \frac{n}{n-1}. \quad (2)$$

We now analyze the optimal symmetric pure strategy equilibrium in cases where the winner-take-all prize structure $P^1 = P$ causes excessive efforts destroying the equilibrium. We show that a more evenly distributed prize structure dampens efforts and extends the range of parameters where existence can be obtained.

Proposition 3. *There is a monotonic prize structure for which a symmetric pure strategy equilibrium inducing positive efforts exists, if and only if⁵*

$$\frac{r}{b} \leq \frac{n-1}{\sum_{k=2}^n \frac{1}{k}}. \quad (3)$$

The above proposition identifies a prize structure which ensures equilibrium existence. The next proposition shows that the following (similar) prize structure is also optimal: The highest possible effort in any symmetric equilibrium is $e^* = c^{-1}(P/n)$. Given that (3) is satisfied, the designer can implement maximal equilibrium efforts e^* by trying first $P^1 = P$, then $P^1 = P^2 = P/2$, then $P^1 = P^2 = P^3 = P/3$ and so forth until the resulting efforts \tilde{e} eventually sink below e^* . For the first such uniform prize structure he then shifts some $\varepsilon > 0$ away from the last prize k and subdivides it equally among the $k-1$ prior prizes until the efforts \tilde{e} exactly equal e^* . The following proposition formalizes this idea.

Proposition 4. *For $n \geq 3$, if (2) is violated but (3) holds, then there exists an integer $2 \leq k < n$ and a real number $0 \leq \varepsilon < \frac{1}{k}P$ such that the prize structure*

$$\left(\underbrace{\frac{1}{k}P + \frac{1}{k-1}\varepsilon, \frac{1}{k}P + \frac{1}{k-1}\varepsilon, \dots, \frac{1}{k}P + \frac{1}{k-1}\varepsilon}_{k-1 \text{ times}}, \frac{1}{k}P - \varepsilon, 0, \dots, 0 \right) \quad (4)$$

is optimal, i.e. induces efforts $e^ = c^{-1}(P/n) = \left(\frac{1}{a} \frac{P}{n}\right)^{\frac{1}{b}}$.*

³ We concentrate attention on symmetric equilibria in pure strategies. Alternatives are discussed, among others, by Baye, Kovenock, and de Vries (1994), Szymanski and Valletti (2005), and Cornes and Hartley (2005).

⁴ The analysis can be done for more general cost but then no explicit existence threshold values can be derived.

⁵ Since (2) and (3) coincide for $n = 2$, existence conditions cannot be improved in this well known case.

Appendix: Proofs

Proof of proposition 1. Denote the probability of player i winning the l^{th} prize among s agents by $f_i^l(e_1, e_2, \dots, e_s)$. Denote also by $(\hat{e}/\{j_1, j_2, \dots, j_{l-1}\})$ a vector of efforts of all players other than $\{j_1, j_2, \dots, j_{l-1}\}$. Then the probability of player i winning prize $l \geq 2$ is given by

$$\begin{aligned} f_i^l(\cdot) &= \sum_{\{j_1, j_2, \dots, j_{l-1}\} \subseteq \mathcal{N} \setminus \{i\}} \Pr \left(\begin{array}{c} i \text{ wins } P^l \\ j_{l-1} \text{ wins } P^{l-1}, \\ \vdots \\ j_1 \text{ wins } P^1 \end{array} \right) \Pr \left(\begin{array}{c} j_{l-1} \text{ wins } P^{l-1} \\ \vdots \\ j_1 \text{ wins } P^1 \end{array} \right) \cdots \Pr(j_1 \text{ wins } P^1) \\ &= \sum_{\{j_1, j_2, \dots, j_{l-1}\} \subseteq \mathcal{N} \setminus \{i\}} f_i^1(\hat{e}/\{j_1, j_2, \dots, j_{l-1}\}) f_{j_{l-1}}^1(\hat{e}/\{j_1, j_2, \dots, j_{l-2}\}) \cdots f_{j_1}^1(\hat{e}) \end{aligned}$$

where the sums are taken over all ordered sets of $l-1$ players different from i . Notice that $f_i^l(\cdot)$ only involves simple Tullock winning probabilities $f_j^1(\cdot)$. Since Player i maximizes (1), symmetric equilibrium efforts $\hat{e} = (e, e, \dots, e)$ satisfy the f.o.c.

$$c'(e) = \sum_{l=1}^n (\alpha_l(\hat{e}) P^l), \quad \alpha_l(\hat{e}) = \frac{\partial}{\partial e} f^l(\hat{e}) \quad (5)$$

where we define $\alpha_l(0) = 0$. If the sequence $\alpha_1, \alpha_2, \dots$ is decreasing in all efforts for a given prize structure, then the symmetric players' utility will be maximized by $P^1 = P$. Coefficients α_1, α_2 , and the general α_l are calculated w.l.o.g. for player 1. The α_l^* are the symmetric equilibrium versions.

$$P^1: \text{ For the first prize } \frac{\partial}{\partial e_1} \frac{e_1^r}{\sum e^r} P^1 = \frac{e^r r (n-1) e_1^{r-1}}{\underbrace{((n-1)e^r + e_1^r)^2}_{=\alpha_1}} P^1 \text{ and for } e_1 = e, \alpha_1^* = \frac{1}{e} \frac{(n-1)r}{n^2}.$$

$$\begin{aligned} P^2: \frac{\partial}{\partial e_1} \left(\frac{e_1^r}{((n-2)e^r + e_1^r)} \frac{(n-1)e^r}{((n-1)e^r + e_1^r)} \right) P^2 &= \frac{r(n-1)e^r e_1^{r-1} (e^{2r}(n-2)(n-1) - e_1^{2r})}{\underbrace{((n-2)e^r + e_1^r)^2 ((n-1)e^r + e_1^r)^2}_{=\alpha_2}} P^2, \\ \Leftrightarrow_{e_1=e} \alpha_2^* &= \frac{1}{e} \frac{(n^2 - 3n + 1)r}{(n-1)n^2}. \end{aligned} \quad (6)$$

P^l : More generally, for prize $l \leq n$, we get

$$\begin{aligned} \frac{\partial}{\partial e_1} \left(\frac{e_1^r}{((n-l)e^r + e_1^r)} \frac{(n-l+1)e^r}{((n-l+1)e^r + e_1^r)} \cdots \frac{(n-1)e^r}{((n-1)e^r + e_1^r)} P^l \right) &= \\ \frac{\partial}{\partial e_1} \left(\frac{e_1^r}{((n-l)e^r + e_1^r)} \prod_{x=1}^{l-1} \frac{(n-x)e^r}{((n-x)e^r + e_1^r)} P^l \right) &= \\ \left(\frac{r(n-l)e^r e_1^{r-1}}{((n-l)e^r + e_1^r)^2} \prod_{x=1}^{l-1} \frac{(n-x)e^r}{((n-x)e^r + e_1^r)} \right. & \\ \left. - \sum_{x=1}^{l-1} \frac{e_1^r}{((n-l)e^r + e_1^r)} \frac{r(n-x)e^r e_1^{r-1}}{((n-x)e^r + e_1^r)^2} \prod_{y=1, y \neq x}^{l-1} \frac{(n-y)e^r}{((n-y)e^r + e_1^r)} \right) & P^l. \end{aligned} \quad (7)$$

Using the identity $\prod_{x=1}^{l-1} \frac{(n-x)}{(n-x+1)} = \frac{(n-l+1)}{n}$, we find the symmetric equilibrium expression as

$$\alpha_l^* = \frac{1}{e} \frac{r}{n} \left(\frac{n-l}{n-l+1} - \sum_{k=n-l+2}^n \frac{1}{k} \right) \quad (8)$$

which is decreasing in l because the derivative of the first term in parenthesis is negative and, for constant n and r , the sum is increasing for $l > 2$. Notice, moreover, that the last coefficient α_n must be negative since, for $l = n$, the above equals $-\frac{1}{e} \frac{r}{n} \sum_{k=2}^n \frac{1}{k}$.⁶

Hence the derivatives of the prize coefficients α are decreasing and $P^1 = P$ induces the contestant's highest equilibrium utilities. Since equilibrium efforts depend on the prize structure, however, it may be the case that equilibrium efforts are higher for some other prize structure (not maximizing the players' utilities). In order to show that this is not the case, we define effort independent coefficients $\beta_l = e\alpha_l$ for $l = 1, \dots, n$ and obtain the f.o.c.

$$c'(e)e = \sum_{l=1}^n \beta_l P^l. \quad (9)$$

Taking equilibrium existence as given, we assume that the s.o.c. holds locally at e^* , i.e.

$$-\frac{1}{e^2} \sum_{l=1}^n \beta_l P^l - c''(e) < 0. \quad (10)$$

The solution e^* is then defined implicitly by $\frac{1}{e} \sum_{l=1}^n \beta_l P^l = c'(e)$ or $\frac{1}{e}k - c'(e) = 0$, where k is a constant parameter. Therefore

$$\frac{de^*}{dk} = -\frac{\frac{\partial (\frac{1}{e}k - c'(e))}{\partial k}}{\frac{\partial (\frac{1}{e}k - c'(e))}{\partial e}} = -\frac{\frac{1}{e}}{-\frac{1}{e^2}k - c''(e)} = \frac{e}{k + e^2 c''(e)} \quad (11)$$

and since we assume that the s.o.c. holds at e^* , we know that $k + e^2 c''(e) > 0$ and $\frac{e}{k + e^2 c''(e)} > 0$. Thus we conclude that if e^* is a solution to player's i maximization problem (i.e. both f.o.c. and s.o.c. hold locally at e^*) then it is also true that e^* is monotonically increasing in k and an increase in $\sum \beta_l P^l$ increases e^* . \square

Proof of proposition 2. We show that if all players other than player $i \in \mathcal{N}$ exert effort e^* , then player i 's best response is $e = e^*$. Player i 's utility is then

$$U(e; e^*) = \frac{e^r}{e^r + (n-1)(e^*)^r} P - ae^b \text{ where } e^* = \left(\frac{1}{ab} \frac{(n-1)r}{n^2} P \right)^{\frac{1}{b}} \quad (12)$$

⁶ Thus assigning a positive prize to the contest loser reduces efforts. The same extends to all cases where (8) is negative. Approximately, for large n , $\alpha_l < 0$ when $\ln(n) - \ln(n-l+2) > \frac{n-l}{n-l+1}$ or roughly $l > \frac{2e-n+en}{e} \approx 0.63n$ (e is the exponential constant in this footnote).

while, by playing e^* , the player gets $U(e^*; e^*) = \frac{1}{n}P - a(e^*)^b = \frac{1}{n} \left(1 - \frac{1}{b} \frac{(n-1)r}{n}\right) P$. It is easy to show that both the first and second order conditions hold at e^* when (2) holds.⁷ Assume that a critical point x exists where $\left. \frac{d}{de} U(e; e^*) \right|_{e=x} = 0$.

a) We first show that if $0 \leq x < e^*$, then $U(x; e^*) < U(e^*; e^*)$. Derive

$$\frac{d}{de} U(e; e^*) = \frac{(n-1)(e^*)^r r e^{r-1}}{(e^r + (n-1)(e^*)^r)^2} P - a b e^{b-1} \quad (13)$$

which equals at a critical point x

$$a b x^{b-1} = \frac{(n-1)(e^*)^r r x^{r-1}}{(x^r + (n-1)(e^*)^r)^2} P. \quad (14)$$

Plugging the critical x^b from (14) into the player's objective (12), we obtain

$$U(x; e^*) = \frac{x^r}{x^r + (n-1)(e^*)^r} P - a x^b = \frac{x^r (b x^r + (n-1)(e^*)^r (b-r))}{b (x^r + (n-1)(e^*)^r)^2} P. \quad (15)$$

Now, $U(x; e^*) < U(e^*; e^*)$ implies that

$$\frac{x^r (b x^r + (n-1)(e^*)^r (b-r))}{b (x^r + (n-1)(e^*)^r)^2} P < \frac{1}{n} \left(1 - \frac{1}{b} \frac{(n-1)r}{n}\right) P \quad (16)$$

which rearranges into

$$((e^*)^r - x^r) (n-1) (x^r (r + bn) + (e^*)^r (n-1) (bn - (n-1)r)) > 0 \quad (17)$$

which is true for $0 \leq x < e^*$ precisely if (2) holds.

b) For $e > e^*$, we proceed to show that $U(e; e^*) - U(e^*; e^*) < 0$ or

$$\frac{e^r}{e^r + (n-1)(e^*)^r} P - a e^b - \frac{1}{n} \left(1 - \frac{1}{b} \frac{(n-1)r}{n}\right) P < 0. \quad (18)$$

Taking derivatives of $U(e; e^*) - U(e^*; e^*)$ w.r.t. e gives

$$\frac{e^r (e^*)^r (n-1) P r - a b e^b (e^r + (e^*)^r (n-1))^2}{e (e^r + (e^*)^r (n-1))^2} \quad (19)$$

⁷ Deriving $U(e; e^*)$ with respect to e gives $\frac{d}{de} U(e; e^*)$ as

$$\frac{r e^{r-1} (e^r + (n-1)(e^*)^r) - r e^{2r-1}}{(e^r + (n-1)(e^*)^r)^2} P - a b e^{b-1} = \frac{(n-1)(e^*)^r r e^{r-1}}{(e^r + (n-1)(e^*)^r)^2} P - a b e^{b-1}.$$

The second derivative gives $\left. \frac{d^2}{de^2} U(e; e^*) \right|_{e=e^*}$ as

$$\frac{r (e^*)^{3r-2} (n-1) ((n-1)(n-1) - (1+r))}{n^3 (e^*)^{3r}} P - a b (b-1) (e^*)^{b-2} = \frac{r (n-1)}{n^3 (e^*)^2} P ((n-2)r - nb)$$

and $(n-2)r - nb < 0 \Leftrightarrow \frac{r}{b} < \frac{n}{n-2}$ which holds because we require $\frac{r}{b} \leq \frac{n}{n-1} < \frac{n}{n-2}$.

which is negative—and hence there is no further critical point for $e > e^*$ —if

$$\frac{r(n-1)}{abn^2}P < \frac{e^b(e^r + (e^*)^r(n-1))^2}{n^2e^r(e^*)^r}. \quad (20)$$

Since the l.h.s. equals $(e^*)^b$ this can be rearranged to $n\sqrt{(e^*)^{r+b}e^{r-b}} < e^r + (n-1)(e^*)^r$. Define $h(e) = n\sqrt{(e^*)^{r+b}e^{r-b}}$ and $g(e) = e^r + (n-1)(e^*)^r$ —both strictly increasing functions in e . Notice that h and g intersect at $e = e^*$. Moreover, $\frac{d}{de}(g(e) - h(e))$ equals

$$re^{r-1} - \frac{1}{2}(r-b)n(e^*)^{\frac{1}{2}(r+b)}e^{\frac{1}{2}(r-b)-1} > 0 \Leftrightarrow \frac{1}{2r}(r-b)n < \left(\frac{e}{e^*}\right)^{\frac{1}{2}(b+r)}. \quad (21)$$

Since for $r \leq \frac{n}{n-1}b$ the l.h.s is smaller than 1, this is true for all $e > e^*$, thus $g(e) - h(e) > 0$ and (18) holds for all $e > e^*$. As, given any prize structure, the symmetric equilibrium effort is unique, we also have the “only if” part. More precisely, if a symmetric equilibrium exists then $U(e^*; e^*) \geq U(0; e^*)$ only if $\frac{1}{n} \left(1 - \frac{1}{b} \frac{(n-1)r}{n}\right) P \geq 0 \Leftrightarrow r \leq \frac{n}{n-1}b$. \square

Proof of proposition 3. Assume a monotonic prize structure $P^1 \geq P^2 \geq \dots \geq P^n \geq 0$, $\sum_l P^l = P$, for which a symmetric pure strategy equilibrium inducing positive efforts exists. We claim that if we change prizes to $(\frac{1}{n-1}(P - P^n), \dots, \frac{1}{n-1}(P - P^n), P^n)$, then equilibrium efforts decrease, i.e.

$$\frac{1}{n-1}(P - P^n) \sum_{l=1}^{n-1} \beta_l + \beta_n P^n \leq \sum_{l=1}^n \beta_l P^l. \quad (22)$$

This is true as we ‘shift effort’ from the first few prizes—with high weights β —to lower prizes. Formally, there exists an index s , $1 \leq s < n-1$, such that $P^l \geq \frac{1}{n-1}(P - P^n)$ for any $l = 1, \dots, s$ and $P^l < \frac{1}{n-1}(P - P^n)$ for $l = s+1, \dots, n-1$.⁸ Now,

$$\frac{1}{n-1}(P - P^n) \sum_{l=1}^{n-1} \beta_l + \beta_n P^n \leq \sum_{l=1}^n \beta_l P^l \Leftrightarrow \sum_{l=1}^{n-1} \beta_l \left(P^l - \frac{1}{n-1}(P - P^n) \right) \geq 0. \quad (23)$$

Since $\sum_{l=1}^{n-1} \beta_l \left(P^l - \frac{1}{n-1}(P - P^n) \right)$ equals

$$\sum_{l=1}^s \beta_l \left(P^l - \frac{1}{n-1}(P - P^n) \right) - \sum_{l=s+1}^{n-1} \beta_l \left(\frac{1}{n-1}(P - P^n) - P^l \right) \quad (24)$$

and

$$\sum_{l=1}^s \beta_l \left(P^l - \frac{1}{n-1}(P - P^n) \right) \geq \beta_s \sum_{l=1}^s \left(P^l - \frac{1}{n-1}(P - P^n) \right) \text{ while} \quad (25)$$

$$\sum_{l=s+1}^{n-1} \beta_l \left(\frac{1}{n-1}(P - P^n) - P^l \right) \leq \beta_s \sum_{l=s+1}^{n-1} \left(\frac{1}{n-1}(P - P^n) - P^l \right),$$

⁸ If $s = n-1$, then this was already the original prize structure and we are done.

we know that

$$\sum_{l=1}^s \left(P^l - \frac{1}{n-1} (P - P^n) \right) - \sum_{l=s+1}^{n-1} \left(\frac{1}{n-1} (P - P^n) - P^l \right) = 0 \quad (26)$$

and thus finally obtain that $\sum_{l=1}^{n-1} \beta_l (P^l - \frac{1}{n-1} (P - P^n)) \geq 0$. Since for the original prize structure $U(e^*; e^*) = \frac{P}{n} - c(e^*) \geq P^n = U(0; e^*)$, we have the same inequality for the new prize structure (recall that $c(e)$ is monotonically increasing). For this new prize structure—using the facts that $\sum \beta_l = 0^9$ and $P^n \leq \frac{1}{n}P$ —we have

$$\begin{aligned} \frac{P}{n} - c(e^*) \geq P^n &\Rightarrow \frac{P}{n} - \frac{1}{b} \left(\frac{(P - P^n)}{n-1} \sum_{l=1}^{n-1} \beta_l + \beta_n P^n \right) \geq P^n \\ &\Rightarrow \frac{1}{n} \left(1 - \frac{1}{b} \frac{n}{n-1} (-\beta_n) \right) P - \frac{1}{b} \frac{n}{n-1} \beta_n P^n \geq P^n \\ &\Rightarrow \frac{1}{n} \left(1 + \frac{1}{b} \frac{n}{n-1} \beta_n \right) P \geq P^n \left(1 + \frac{1}{b} \frac{n}{n-1} \beta_n \right) \Rightarrow \left(1 + \frac{1}{b} \frac{n}{n-1} \beta_n \right) \geq 0 \\ &\Rightarrow \frac{r}{b} \leq \frac{n-1}{\sum_{k=2}^n \frac{1}{k}}. \end{aligned}$$

Assume now that (3) holds. We show that we can find a prize structure ‘close’ to $(\frac{1}{n}P, \dots, \frac{1}{n}P)$ for which a symmetric pure strategy equilibrium inducing positive efforts exists. Recall that a given prize structure induces a unique symmetric equilibrium effort that solves (9), i.e.

$$c'(e)e = \sum_{l=1}^n \beta_l P^l \Leftrightarrow e^* = \left(\frac{1}{ab} \sum_{l=1}^n \beta_l P^l \right)^{\frac{1}{b}} \Leftrightarrow c(e^*) = \frac{1}{b} \sum_{l=1}^n \beta_l P^l \quad (27)$$

where the coefficients β_l are functions of n and r (independent of e and P). Choose a small positive $\varepsilon \leq \frac{1}{n}P$ and consider the prize structure $(\frac{1}{n}P + \frac{1}{n-1}\varepsilon, \dots, \frac{1}{n}P + \frac{1}{n-1}\varepsilon, \frac{1}{n}P - \varepsilon)$. If a symmetric pure strategy equilibrium exists under this prize structure, then it induces a positive effort of

$$e^* = \left(\frac{1}{ab} \left(\sum_{l=1}^{n-1} \beta_l \left(\frac{1}{n}P + \frac{1}{n-1}\varepsilon \right) + \beta_n \left(\frac{1}{n}P - \varepsilon \right) \right) \right)^{\frac{1}{b}}. \quad (28)$$

Since (3) holds, we indeed get that by exerting an effort of e^* the player achieves a higher utility than what she can achieve by exerting zero effort (while all other players exert $e^* > 0$), i.e.

$$U(e^*; e^*) = \frac{P}{n} - c(e^*) \geq \frac{1}{n}P - \varepsilon = U(0; e^*). \quad (29)$$

This can be shown by expressing $c(e^*) = \frac{1}{b} (\sum_{l=1}^{n-1} \beta_l (\frac{1}{n}P + \frac{1}{n-1}\varepsilon) + \beta_n (\frac{1}{n}P - \varepsilon))$ and again employing that $\sum \beta_l = 0$. Then (29) is equivalent to $\frac{1}{b} (\frac{1}{n-1}(-\beta_n) - \beta_n) \leq 1$ which, by substituting

⁹ Since $\sum_{l=1}^n \beta_l = \frac{(n-1)r}{n^2} + \sum_{l=2}^n \frac{r}{n} \left(\frac{n-l}{n-l+1} - \sum_{k=n-l+2}^n \frac{1}{k} \right) = \frac{r}{n} \left(\frac{n-1}{n} + \sum_{k=1}^{n-1} \frac{k-1}{k} - \sum_{k=2}^n \frac{k-1}{k} \right) = 0$.

$\beta_n = -\frac{r}{n} \sum_{k=2}^n \frac{1}{k}$ gives $\frac{r}{b} \frac{1}{n-1} \sum_{k=2}^n \frac{1}{k} \leq 1$ which is true since (3) holds.

To ensure a global maximum we need to show that for every $e \notin \{0, e^*\}$, $U(e; e^*) < U(e^*; e^*)$ where

$$U(e^*; e^*) = \frac{P}{n} - c(e^*) = \frac{P}{n} - \frac{1}{b} \left(\sum_{l=1}^{n-1} \beta_l \left(\frac{1}{n} P + \frac{1}{n-1} \varepsilon \right) + \beta_n \left(\frac{1}{n} P - \varepsilon \right) \right) = \frac{P}{n} - \frac{r}{b} \frac{1}{n-1} \sum_{k=2}^n \frac{1}{k} \varepsilon.$$

a) We wish to show that for $e > e^*$, $\frac{d}{de} U(e; e^*) < 0$ implies

$$\frac{dU(e; e^*)}{de} = \left(\frac{n}{n-1} \varepsilon \right) \frac{(n-1)! r e^{r-1} (e^*)^{r(n-1)}}{\prod_{j=1}^{n-1} (e^r + (n-j)(e^*)^r)} \left(\sum_{l=1}^{n-1} \frac{1}{(e^r + (n-l)(e^*)^r)} \right) - a b e^{b-1} < 0. \quad (30)$$

By rearranging and multiplying by $\sum_{k=2}^n \frac{1}{k}$ we get

$$\frac{r \varepsilon}{a b (n-1)} \sum_{k=2}^n \frac{1}{k} < \frac{e^{b-r} \prod_{j=1}^{n-1} (e^r + (n-j)(e^*)^r) \sum_{k=2}^n \frac{1}{k}}{n! (e^*)^{r(n-1)} \left(\sum_{l=1}^{n-1} \frac{1}{(e^r + (n-l)(e^*)^r)} \right)} \quad (31)$$

and using the fact that $(e^*)^b = \frac{r \varepsilon}{a b (n-1)} \sum_{k=2}^n \frac{1}{k}$ we obtain

$$(e^*)^{b+r(n-1)} < \frac{e^{b-r} \prod_{j=1}^{n-1} (e^r + (n-j)(e^*)^r) \sum_{k=2}^n \frac{1}{k}}{n! \left(\sum_{l=1}^{n-1} \frac{1}{(e^r + (n-l)(e^*)^r)} \right)}. \quad (32)$$

Now, for $e > e^*$

$$\frac{e^{b-r} \prod_{j=1}^{n-1} (e^r + (n-j)(e^*)^r) \sum_{k=2}^n \frac{1}{k}}{n! \left(\sum_{l=1}^{n-1} \frac{1}{(e^r + (n-l)(e^*)^r)} \right)} > e^{b-r} (e^*)^{rn} \quad (33)$$

and

$$(e^*)^{b+r(n-1)} < e^{b-r} (e^*)^{rn} \Leftrightarrow \left(\frac{e^*}{e} \right)^{b-r} < 1 \quad (34)$$

which is indeed true for $e > e^*$. **b)** For $e < e^*$, showing that $\frac{d}{de} U(e; e^*) > 0$ involves exactly the same steps (30)–(34) as under a) for the reversed inequality. \square

Proof of proposition 4. We define k as the smallest integer such that the prize structure (4) induces a symmetric equilibrium effort (27) which is smaller or equal to the optimal effort $c^{-1} \left(\frac{P}{n} \right)$. Thus k is the smallest integer such that $\frac{1}{k} \sum_{l=1}^k \beta_l \leq \frac{b}{n}$. We know that such an integer exists since the l.h.s. is decreasing in k (for $k < n$)

$$\frac{1}{k} \sum_{l=1}^k \beta_l \geq \frac{1}{k+1} \sum_{l=1}^{k+1} \beta_l \Leftrightarrow \frac{1}{k} \sum_{l=1}^k \beta_l \geq \beta_{k+1} \quad (35)$$

and since β_l is decreasing with l we have $\frac{1}{k} \sum_{l=1}^k \beta_l > \frac{1}{k} \sum_{l=1}^k \beta_k = \beta_k > \beta_{k+1}$ and we establish (35). Moreover, for $k = 1$ we have $\beta_1 = \frac{(n-1)r}{n^2} > \frac{b}{n}$ since (2) is violated, and since (3) holds, we know that, for $k = n - 1$, it is true that $\frac{1}{k} \sum_{l=1}^k \beta_l \leq \frac{b}{n}$. We thus need to show that given k we can find

an $0 \leq \varepsilon < \frac{1}{k}P$ such that the prize structure (4) induces the optimal effort i.e.

$$e^*(k) = \left(\frac{1}{ab} \left(\sum_{l=1}^{k-1} \beta_l \left(\frac{P}{k} + \frac{1}{k-1} \varepsilon \right) + \beta_k \left(\frac{1}{k}P - \varepsilon \right) \right) \right)^{\frac{1}{b}} = \left(\frac{1}{a} \frac{P}{n} \right)^{\frac{1}{b}}. \quad (36)$$

We find ε by ensuring that the utility of the players is minimized and equal to zero, i.e.

$$\begin{aligned} (k-1) \frac{1}{n} \left(\frac{P}{k} + \frac{1}{k-1} \varepsilon \right) + \frac{1}{n} \left(\frac{P}{k} - \varepsilon \right) - \frac{1}{b} \left(\sum_{l=1}^{k-1} \beta_l \left(\frac{P}{k} + \frac{1}{k-1} \varepsilon \right) + \beta_k \left(\frac{1}{k}P - \varepsilon \right) \right) &= 0 \\ \frac{1}{b} \left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right) \varepsilon &= \left(\frac{1}{n} - \frac{1}{bk} \sum_{l=1}^k \beta_l \right) P. \end{aligned}$$

We also know that $\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l > \frac{b}{n}$ and that $\frac{1}{k} \sum_{l=1}^k \beta_l = \frac{1}{k} \sum_{l=1}^{k-1} \beta_l + \frac{1}{k} \beta_k \leq \frac{b}{n}$. Thus

$$\left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right) \geq k \left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \frac{b}{n} \right) > 0. \quad (37)$$

Therefore we have

$$\varepsilon = \frac{\left(\frac{b}{n} - \frac{1}{k} \sum_{l=1}^k \beta_l \right)}{\left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right)} P > 0. \quad (38)$$

Finally we need to show that $\varepsilon < \frac{1}{k}P$ implying that

$$\frac{b}{n} - \frac{1}{k} \sum_{l=1}^k \beta_l < \frac{1}{k} \left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right) \Leftrightarrow \frac{b}{n} < \frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l \quad (39)$$

which follows from the definition of k . Using this in (36), we obtain efforts $e^*(k)$ as

$$\begin{aligned} &\left(\frac{1}{ab} \left(\sum_{l=1}^{k-1} \beta_l \left(\frac{1}{k} + \frac{1}{k-1} \frac{\left(\frac{b}{n} - \frac{1}{k} \sum_{l=1}^k \beta_l \right)}{\left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right)} \right) + \beta_k \left(\frac{1}{k} - \frac{\left(\frac{b}{n} - \frac{1}{k} \sum_{l=1}^k \beta_l \right)}{\left(\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k \right)} \right) \right) P \right)^{\frac{1}{b}} \\ &= \left(\frac{1}{ab} \frac{b}{n} \left(\frac{\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k}{\frac{1}{k-1} \sum_{l=1}^{k-1} \beta_l - \beta_k} \right) P \right)^{\frac{1}{b}} = \left(\frac{1}{a} \frac{P}{n} \right)^{\frac{1}{b}}. \quad \square \end{aligned}$$

References

- BARUT, Y., AND D. KOVENOCK (1998): "The Symmetric Multiple Prize All-Pay Auction with Complete Information," *European Journal of Political Economy*, 14, 627–44.
- BAYE, M. R., D. KOVENOCK, AND C. DE VRIES (1994): "The Solution to the Tullock Rent-Seeking Game when $R > 2$: Mixed-strategy equilibria and mean dissipation rates," *Public Choice*, 81, 363–80.

- (1996): “The The all-pay auction with complete information,” *Economic Theory*, 8, 291–305.
- CLARK, D., AND C. RIIS (1996): “A Multi-winner Nested Rent-seeking Contest,” *Public Choice*, 87, 177–84.
- (1998a): “Competition over More than One Prize,” *American Economic Review*, 88(1), 276–89.
- (1998b): “Influence and the Discretionary Allocation of Several Prizes,” *European Journal of Political Economy*, 14, 605–25.
- CORNES, R., AND R. HARTLEY (2005): “Asymmetric contests with general technologies,” *Economic Theory*, 26, 923–46.
- KONRAD, K. (2008): *Strategy and Dynamics in Contests*. Oxford University Press, Oxford.
- MOLDOVANU, B., AND A. SELA (2001): “The Optimal Allocation of Prizes in Contests,” *American Economic Review*, 91(3), 542–58.
- SKAPERDAS, S. (1996): “Contest Success Functions,” *Economic Theory*, 7(2), 283–90.
- SZYMANSKI, S., AND T. M. VALLETTI (2005): “Incentive Effects of Second Prizes,” *European Journal of Political Economy*, 21, 467–81.