

# The shape of luck and competition in winner-take-all tournaments

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In winner-take-all tournaments, agents' performance is determined jointly by effort and luck, and the top performer is rewarded. We study the impact of the “shape of luck”—the details of the distribution of performance shocks—on incentives in such settings. We are concerned with the effects of increasing the number of competitors, which can be deterministic or stochastic, on individual and aggregate effort. We show that these effects are determined by the shape of the density and failure (hazard) rate of the distribution of shocks. When shocks have heavy tails, aggregate effort can decrease in the number of competitors.

**KEYWORDS.** Tournament, competition, heavy tails, stochastic number of players, unimodality, log supermodularity, failure rate.

**JEL CLASSIFICATION.** C72, D72, D82.

## 1. INTRODUCTION

*[...] because the contests that mete out society's biggest prizes are so bitterly competitive, talent and effort alone are rarely enough to ensure victory. In almost every case, a substantial measure of luck is also necessary.*

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Robert H. Frank

*Success and Luck: Good Fortune and the Myth of Meritocracy*

Luck, or lack thereof, plays a crucial role in people's lives. The success stories we observe in business, academia, sports, or the arts can often be traced back to a “lucky moment” or an unlikely sequence of events that defined the future path of success. Notable examples are the stories of Bill Gates and Microsoft, Da Vinci's *Mona Lisa*, and

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We are grateful to two anonymous referees, Johannes Hörner, Bruno Jullien, Michel Le Breton, Margaret Meyer, Marc Möller, Armin Schmutzler, Marco Serena, and participants of various seminars and conferences. Parts of this paper were written when the second author was visiting the Toulouse School of Economics, and he is very thankful for its hospitality.

actor Bruce Willis. In fact, a lucky break, or sequence of breaks, underlying a success story is not an exception, but a rule (Mlodinow 2009, Frank 2016).<sup>1</sup>

Luck is especially important in *winner-take-all* (WTA) settings where rewards accrue to the select few. Examples include research and development (R&D) competition, admission to top universities, job applications for an attractive position, or competition for promotion in organizations. Careers in professional sports or the arts are predicated almost entirely on WTA incentives. When many hard-working, equally able people are trying to achieve the same thing, success requires a nontrivial amount of luck. As the number of competitors increases, so does the chance that *someone else* will get a better draw, which should discourage individual effort. Yet economists typically believe that competition provides incentives in markets, at least on the aggregate, leading to larger output, lower prices, and higher efficiency (e.g., Ruffin 1971). In symmetric auctions, revenue increases in the number of bidders (McAfee and McMillan 1987a). For R&D competition, empirical evidence shows a positive effect of competition on investment in innovation even at the individual firm level (Vives 2008).

In this paper, we study the effect of competition on incentives in WTA settings with a significant luck component. To do so, we utilize the classic rank-order tournament model of Lazear and Rosen (1981). Agents' output is given by effort distorted by additive noise, and the agent whose output is the highest wins the tournament and receives a fixed prize. The idiosyncratic noise is synonymous with luck in this model, and different distributions of noise allow for different "shapes of luck."

We consider tournaments where the number of players can be stochastic, following an arbitrary distribution. Indeed, in many situations the number of competitors is unknown to the tournament participants at the time they decide how much to invest in competition. This is the case, for example, in coding contests where an unknown and potentially very large number of coders submit their solutions, such as the Netflix Prize,<sup>2</sup> in hiring tournaments where a job seeker does not know how many others she is up against, or in promotion tournaments where an employee may not know how many of her colleagues the management is considering for a senior position.

The contribution of this paper is to answer a very basic question: How are individual and aggregate efforts in WTA tournaments affected by an increase in the *number* of competitors, in the first-order stochastic dominance (FOSD) sense? We show that

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<sup>1</sup>When Bill Gates was growing up, he was one of 50 or so students *in the world* who, by sheer chance, had access to a programming terminal allowing code to run with instant feedback (Frank 2016). The key contract between IBM and Microsoft, which transformed the latter into a world-dominating software company, was signed due to a series of random events; Microsoft did not even develop the initial version of its famous operating system DOS (Mlodinow 2009). The *Mona Lisa* was not considered an exceptional work of art until it was stolen from the Louvre in 1911. The newspaper coverage of the painting's theft and recovery two years later created its global fame (Watts 2011). Bruce Willis acted for seven years in small roles in New York, his main income coming from bartending. He flew to Los Angeles for personal reasons, went to a few television auditions, and got a role in *Moonlighting* far from being everyone's top choice. The first season flopped, but the second one became a hit, and the rest is history (Mlodinow 2009).

<sup>2</sup>The Netflix Prize competition, where the task was to improve the Netflix recommendation algorithm for movies, ran for three years overall and about 40,000 teams registered at some point. The final stage lasted 30 days and the two best teams tied in terms of the score. One of the teams won because it submitted its solution *20 minutes* before its rival (Lohr 2009).

the shape of the distribution of noise—specifically, of its density and failure (hazard) rate—is crucial for any prediction about the effect of competition on effort. There is not a single prediction, either for individual or aggregate effort, that cannot be reversed for at least some distribution of noise. Individual and aggregate equilibrium effort can be increasing, decreasing, or nonmonotone in the number of players. We systematize and provide new general results for these effects both when the number of players is known and when it is random. The results have many testable implications, as well as far-reaching applications for tournament design.

To cleanly delineate the effects of the number of players and the distribution of noise, we focus on a setting with symmetric players; that is, we assume away differences in ability. While these differences undoubtedly play a critical role in success across the society at large, the most intense competition takes place, and the impact of luck is especially pronounced, in stratified sub-tournaments among (roughly) equally able contestants.<sup>3</sup> Then, in the symmetric pure-strategy equilibrium, there are no differences in effort, and the winner is the luckiest player, i.e., the one with the highest realization of noise.

A general intuition for our results is the following. Start with a deterministic number of players  $k \geq 2$ . A marginal increase in player  $i$ 's effort in the symmetric equilibrium is pivotal, that is, it makes this player the winner, if the player's noise realization,  $X_i$ , is equal to order statistic  $X_{(k-1:k-1)}$ , the highest realization of noise among the other  $k - 1$  players. This means, formally, that the equilibrium effort is determined by the probability density of the difference  $X_i - X_{(k-1:k-1)}$  at zero, which is equal to the expectation  $\mathbb{E}(f(X_{(k-1:k-1)}))$ , where  $f(\cdot)$  is the probability density function (pdf) of noise. Order statistic  $X_{(k-1:k-1)}$  is FOSD-increasing in  $k$ , and the comparative statics for monotone densities then follow immediately. For example, in the case of uniformly distributed noise, the number of players does not affect the individual equilibrium effort. More generally, adapting results from Karlin (1968), we show that the *unimodality* of the pdf of noise leads to the individual equilibrium effort being unimodal in the number of players. The result follows from a log-supermodularity condition that the pdf of order statistic  $X_{(k-1:k-1)}$  satisfies.<sup>4</sup> We provide a general characterization of the equilibrium comparative statics for unimodal noise distributions from which all existing results follow as special cases.

For aggregate effort, using arguments similar to those in the previous paragraph, we show that when the cost of effort is quadratic, aggregate effort can be written as the expectation  $\mathbb{E}(h(X_{(k-1:k)}))$ , where  $h(\cdot)$  is the failure (hazard) rate of noise, and  $X_{(k-1:k)}$  is the second-highest order statistic among  $k$  noise realizations. Then aggregate effort

<sup>3</sup>For example, each year thousands of top high school graduates compete for admission to elite universities; the presence of unqualified applicants in the mix is largely irrelevant. A similar stratification happens naturally in the job market for academic positions or in competition among papers submitted to top journals. Even if quality varies substantially in the initial pool, the actual competition boils down to a subset where quality is very close and, inevitably, luck comes into play. It is also widely believed that tournaments become inefficient as agents' heterogeneity increases (Lazear and Rosen 1981). Thus, tournament-based incentives are most likely to emerge in settings with symmetric agents.

<sup>4</sup>See Athey (2002) and related papers for a discussion of the role of log supermodularity in monotone comparative statics problems under uncertainty.

is increasing in the number of players if the noise distribution has an increasing failure rate (IFR), such as the normal, uniform, and Gumbel distributions. The comparative statics are reversed for distributions with decreasing failure rates (DFR), such as Pareto. We then generalize these results for cost functions more or less convex than quadratic in the sense of the convex transform order (Shaked and Shanthikumar 2007).

Turn now to the case when the number of players,  $k$ , is stochastic. The equilibrium effort is then determined by an expectation over  $k$  of the expectations of functions of order statistics described in the previous two paragraphs. For the equilibrium effort to be unimodal in the number of players as the latter increases in the FOSD sense, the result on the preservation of unimodality has to be applied once more, this time to the distribution of  $k$ . Unlike the distributions of order statistics  $X_{(k-1:k-1)}$  and  $X_{(k-1:k)}$ , an arbitrary distribution of  $k$  may not satisfy the corresponding log-supermodularity condition; hence, a restriction on the distribution of  $k$  has to be imposed. This restriction is rather weak; it is satisfied, for example, by the family of power series distributions that includes the distributions typically used in the literature to model population uncertainty, such as the Poisson, binomial, negative binomial, and logarithmic distributions.

The most surprising results are obtained for aggregate effort in the presence of a *heavy tail* in the distribution of noise. Such noise distributions, most notably *power laws* (Gabaix 2016), are usually characterized by a decreasing or (interior) unimodal failure rate. Our results then imply a reduction in aggregate effort with the number of players, at least in sufficiently large tournaments. A principal whose goal is to maximize aggregate effort or investment, e.g., in a promotion tournament or an R&D race, would benefit from restricting the number of participants. This is a new mechanism that is very different from those identified in the literature on optimal exclusion of agents in contests.<sup>5</sup>

Fluctuations following heavy-tailed distributions, including power laws (also known as the Pareto distribution), have been widely identified in economics, finance, and other domains. For example, it has been known for a long time that economic variables such as income (Pareto et al. 1964), city sizes (Auerbach 1913), firm sizes (Axtell 2001), stock market movements (Mandelbrot 1967), and CEO compensation (Roberts 1956) follow power laws. More recently, power laws have been found to describe demand for books at Amazon (Chevalier and Goolsbee 2003) and movie ratings in Netflix (Bimpikis and Markakis 2016).<sup>6</sup> The nature of innovation as an unlikely breakthrough resulting from a large number of mostly unsuccessful attempts produces heavy tails in the value, quality, and financial returns of inventions (Fleming 2007).

<sup>5</sup>The existing literature shows that it may be optimal to exclude certain types from contests with heterogeneous agents (see, e.g., Baye et al. 1993, Taylor 1995, Fullerton and McAfee 1999, Che and Gale 2003) or to restrict entry in contests with symmetric agents and endogenous participation (Fu et al. 2015). The present paper shows, instead, that exclusion may be optimal even when agents are symmetric and their number is exogenous.

<sup>6</sup>See Gabaix (2016) for a survey of many identified power laws and their underlying mechanisms. Many patterns outside economics are described by power laws as well, such as the frequency of words in natural languages (Zipf 1949), the intensity of earthquakes (Christensen et al. 2002), or popularity in social networks (Barabási and Albert 1999).

To date, there is virtually no empirical research on the effects of variation in the shape of shocks on behavior in tournaments. The existing studies of tournaments using natural data (e.g., Ehrenberg and Bognanno 1990, Knoeber and Thurman 1994, Eriksson 1999) treat noise as a nuisance and do not attempt to estimate its distribution. Similarly, laboratory experiments typically rely on a specific distribution of noise in their winner determination process—most often, a lottery contest or uniformly distributed additive shocks (for a review, see Dechenaux et al. 2015)—and do not explore variation in its shape. We only know of one exception. List et al. (forthcoming) study how effort depends on the number of players in tournaments with varying noise densities. They consider distributions with constant, increasing, and decreasing densities, and find, consistent with theory, that the comparative statics of individual effort follow similar patterns. However, all three distributions in their study are light-tailed with increasing failure rates and, consistent with our results, they observe aggregate effort increasing in the number of players in all three cases.

Finally, we study the design of optimal tournaments with stochastic participation. We identify conditions for when the uncertainty about the number of players increases or decreases equilibrium effort. We also explore the optimality of disclosing the realized number of players. Among the  $\sim 40,000$  teams registered for the Netflix Prize competition, many were not active. Should Netflix have disclosed the number of active participants?

*Relation to prior literature* Starting with the seminal contributions of Tullock (1980) and Lazear and Rosen (1981), there is by now a large theoretical literature on tournaments using the respective models.<sup>7</sup> An important feature of these models that distinguishes them from “perfectly discriminating” contests or all-pay auctions (e.g., Hillman and Riley 1989, Baye et al. 1996, Siegel 2009, Moldovanu and Sela 2001) is the presence of uncertainty, or “noise,” in the winner determination process.

Yet, the existing analysis of *general* tournament models is quite scarce, even in the case of nonrandom number of players. For tractability reasons, most of the literature uses either the Tullock CSF (contest success function; also known as the lottery contest) and its lottery-form generalizations that satisfy the axioms of Skaperdas (1996), or the Lazear–Rosen tournament with two players.<sup>8</sup> Relatively little is known about the basic comparative statics of the WTA tournament model in general. While the symmetric equilibrium effort decreases in the number of players in the Tullock contest (see, for example, surveys by Nitzan 1994, Corchón and Serena 2018), it is independent of the number of players in a Lazear–Rosen tournament when the distribution of noise is uniform. For general tournaments with a fixed number of players, Gerchak and He (2003) provide an important first step, showing that the equilibrium effort is decreasing in the number of players when the noise density is decreasing or unimodal and symmetric, and is increasing when the density is increasing (similar results are obtained by Ales et al. 2019).

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<sup>7</sup>See surveys by, e.g., Konrad (2009), Connelly et al. (2014), and Corchón and Serena (2018).

<sup>8</sup>Notable exceptions are the papers that analyze optimal prize structures in tournaments (Nalebuff and Stiglitz 1983, Green and Stokey 1983, Krishna and Morgan 1998, Kalra and Shi 2001, Akerlof and Holden 2012, Ales et al. 2017, Balafoutas et al. 2017, Drugov and Ryvkin 2018, 2019). See also a survey of the earlier literature by McLaughlin (1988).

Even less is known about the behavior of aggregate effort beyond the Tullock contest and Lazear–Rosen tournament with uniformly distributed noise where it is increasing in the number of players.

There is no study of general rank-order tournaments with a stochastic number of players. The previous literature is restricted to the Tullock contest model (and its lottery-form generalizations), which we generalize. Myerson and Wärneryd (2006) compare aggregate equilibrium effort in the case of an arbitrary distribution of group size with expectation  $\mu$  with the case when the number of players is equal to  $\mu$  with certainty. Münster (2006) and Lim and Matros (2009) study the comparative statics of effort when the distribution of contest size is binomial.<sup>9</sup> Fu et al. (2011) study the effect of disclosing the number of participating players on aggregate effort. Boosey et al. (2019) provide results on the effects of disclosure in contests between groups with stochastic sizes. More generally, our paper is related to the literature on games with population uncertainty, including auctions<sup>10</sup> and Poisson games.<sup>11</sup>

The rest of the paper is organized as follows. Section 2 sets up the model and provides some preliminary steps. Sections 3 and 4 present comparative statics results for individual and aggregate effort, respectively. Applications for tournament design are discussed in Section 5, and Section 6 concludes. More technical results on the existence of equilibrium and comparative statics for multimodal noise distributions are provided in Appendix A. All proofs are contained in Appendix B.

## 2. THE MODEL AND PRELIMINARIES

### 2.1 The model setup

We consider a tournament game in which the number of players,  $K$ , is a random variable that takes nonnegative integer values. Let  $p = (p_0, p_1, \dots, p_n)$  denote the probability mass function (pmf) of  $K$ , where  $p_k = \mathbb{P}(K = k)$  is the probability of having  $k$  players in the tournament. We use  $P = (P_0, P_1, \dots, P_n = 1)$  to denote the corresponding cumulative mass function (cmf),  $P_k = \sum_{l=0}^k p_l$ , and use  $G(z) = \sum_{k=0}^n p_k z^k$ ,  $z \in [0, 1]$ , to denote the probability generating function (pgf) of  $K$ . The maximum possible number of players  $n \geq 2$  can be finite or infinite,  $\mathbb{P}(K \geq 2) > 0$ , and  $\mathbb{E}(K^3)$  is finite.

Operationally, it is convenient to think about a set of *potential* participants  $\mathcal{N} = \{1, \dots, n\}$  from which a subset  $\mathcal{K} \subseteq \mathcal{N}$  is randomly drawn such that  $\mathbb{P}(|\mathcal{K}| = k) = p_k$ , and subsets of the same cardinality  $|\mathcal{K}|$  have the same probability of being drawn. Each player is informed if she is selected, but is not informed about the value of  $K$ .

All participating players  $i \in \mathcal{K}$  simultaneously and independently choose efforts  $e_i \in \mathbb{R}_+$ . The cost of effort  $e_i$  to player  $i$  is  $c(e_i)$ . Function  $c: \mathbb{R}_+ \rightarrow \mathbb{R}_+$  is continuous, strictly increasing<sup>12</sup> and strictly convex on  $[0, \bar{e}]$ , and  $C^2$  on  $(0, \bar{e}]$ , where  $\bar{e} \equiv c^{-1}(1) < \infty$ .

<sup>9</sup>Münster (2006) also explores the effect of risk aversion in the same setting.

<sup>10</sup>For a theoretical analysis of auctions with a stochastic number of bidders, see, e.g., McAfee and McMillan (1987b), Harstad et al. (1990) and Levin and Ozdenoren (2004).

<sup>11</sup>See, e.g., Myerson (1998, 2000), Makris (2008, 2009), De Sinopoli and Pimienta (2009), Mohlin et al. (2015), Kahana and Klunover (2015, 2016).

<sup>12</sup>Throughout this paper, unless noted otherwise, “increasing” means nondecreasing and “decreasing” means nonincreasing. When distinctions are important, “strictly increasing” and “strictly decreasing” are used.

Furthermore,  $c(0) = c'(0) = 0$ . Efforts  $e_i$  are perturbed by random additive shocks  $X_i$  to generate the players' output levels  $y_i = e_i + X_i$ .<sup>13</sup> Shocks  $X_i$  are independent and identically distributed (i.i.d.) with absolutely continuous cumulative distribution function (cdf)  $F(\cdot)$ , and continuous, bounded, piecewise differentiable, and square-integrable pdf  $f(\cdot)$  defined on interval support  $\mathcal{X} = [\underline{x}, \bar{x}]$ , where the bounds  $\underline{x}$  and  $\bar{x}$  may be finite or infinite.<sup>14</sup> The winner of the tournament—the player whose output is the highest—receives a prize normalized to 1. Ties occur with probability 0. The players are risk-neutral expected payoff maximizers.

### 2.2 Equilibrium characterization

Let  $S_i$  denote a random variable equal to 1 if player  $i \in \mathcal{N}$  is selected for participation and 0 otherwise, and let  $\tilde{K} = (K|S_i = 1)$  denote the random number of players in the tournament from the perspective of a participating player. The pmf of  $\tilde{K}$  is given by (see, e.g., Harstad et al. 1990)

$$\tilde{p}_k = \mathbb{P}(\tilde{K} = k) = \frac{p_k k}{\bar{k}}, \quad k = 1, \dots, n, \tag{1}$$

where  $\bar{k} = \mathbb{E}(K)$ . The corresponding cmf is denoted as  $\tilde{P}$ .

Equation (1) can be understood as follows (Myerson and Wärneryd 2006). Suppose  $n$  is finite (for an infinite  $n$ , a similar argument applies in the limit  $n \rightarrow \infty$ ). For a given  $k$ , the probability for player  $i$  to be selected for participation is  $\mathbb{P}(S_i = 1|K = k) = k/n$ ; thus,

$$\tilde{p}_k = \mathbb{P}(K = k|S_i = 1) = \frac{\mathbb{P}(S_i = 1|K = k)p_k}{\sum_{l=0}^n \mathbb{P}(S_i = 1|K = l)p_l} = \frac{\frac{k}{n}p_k}{\sum_{l=0}^n \frac{l}{n}p_l},$$

which gives (1).

We focus on a symmetric pure-strategy equilibrium in which all participating players choose effort  $e^* > 0$ . The expected payoff of a participating player  $i \in \mathcal{K}$  from some deviation effort  $e_i$  is

$$\pi^{(i)}(e_i, e^*) = \sum_{k=1}^n \tilde{p}_k \int F(e_i - e^* + x)^{k-1} dF(x) - c(e_i). \tag{2}$$

Here and below, integration over  $\mathcal{X}$  is implied unless noted otherwise. Define  $b_k$  as

$$b_k = (k - 1) \int F(x)^{k-2} f(x) dF(x). \tag{3}$$

<sup>13</sup>We assume that shocks are additive. A model with multiplicative shocks can be cast into this form via a logarithmic transformation; see Section 2.4.

<sup>14</sup>In this type of models, it is typically assumed that the shocks are zero mean. While this assumption can be made without loss of generality, it is not necessary because the probability of winning is determined by differences in shocks. Moreover, shocks can be i.i.d. conditional on an additive common component.

The symmetric first-order condition for payoff maximization,  $\pi_{e_i}^{(i)}(e^*, e^*) = 0$ , gives

$$c'(e^*) = B_p \equiv \sum_{k=1}^n \tilde{p}_k b_k = \frac{1}{k} \sum_{k=2}^n p_k k b_k. \quad (4)$$

The summation can start with  $k = 2$  instead of  $k = 1$  because  $b_1 = 0$ . In other words, only group sizes  $k \geq 2$  contribute to the equilibrium effort.

Let  $e_p^*$  denote the unique positive solution of (4), assuming it exists. This solution is the candidate for the symmetric pure-strategy equilibrium effort. The equilibrium existence can be ensured by assuming function  $c(\cdot)$  has a second derivative bounded away from zero and the distribution of noise is sufficiently dispersed. Technical details are provided in [Appendix A.1](#). Since  $c'(e^*)$  is strictly increasing in  $e^*$ , the comparative statics of equilibrium effort  $e_p^*$  with respect to parameters of distribution  $p$  are determined entirely by  $B_p$ .

To understand the role of coefficients  $b_k$ , consider the degenerate case of a tournament with a fixed number of players  $k$ . With a slight abuse of notation, let  $e_k^*$  denote the corresponding equilibrium effort. Equation (4) then gives

$$c'(e_k^*) = b_k. \quad (5)$$

Thus,  $b_k$  is the equilibrium marginal benefit of effort in a tournament with  $k$  players, and total marginal benefit  $B_p$  is the expectation of  $b_{\tilde{K}}$  (cf. (4)).

Combining (3) and (4), it sometimes is convenient to write  $B_p$  in the form

$$B_p = \int f(x) d\tilde{G}(F(x)), \quad (6)$$

where  $\tilde{G}(z) = \sum_{k=1}^n \tilde{p}_k z^{k-1}$  is the pgf of  $\tilde{K}$ .

### 2.3 Properties of $\tilde{p}$

We are interested in the effects of changes in distribution  $p$  on coefficients  $B_p$ , which then monotonically map into the comparative statics for equilibrium effort  $e_p^*$ . In particular, we explore how  $B_p$  responds to a stochastic increase (in the standard FOSD sense) in the number of players in the tournament. To this end, consider a parameterized family of group size distributions  $\{p(\theta)\}_{\theta \in \Theta}$ , where  $\Theta \subseteq \mathbb{R}$  is an ordered set. Let  $P(\theta)$  and  $G(z, \theta)$  denote the corresponding cmf and pgf. We assume that  $p(\theta)$  is FOSD-ordered in  $\theta$  so that  $P_k(\theta)$  and  $G(z, \theta)$  are decreasing in  $\theta$ . However, the corresponding updated pmf,  $\tilde{p}(\theta)$ , may not, in general, be FOSD-ordered in  $\theta$ . The following lemma provides a sufficient condition for when FOSD ordering is preserved under participation updating.

**LEMMA 1.** *Suppose  $p(\theta)$  satisfies the increasing likelihood ratio (ILR) property: For any  $\theta' > \theta$ ,  $p_k(\theta')/p_k(\theta)$  is increasing in  $k$ . Then both  $p(\theta)$  and  $\tilde{p}(\theta)$  are FOSD-ordered.*

Two distributions used most prominently in the literature to model population uncertainty are the Poisson and binomial distributions. Along with the negative binomial



and logarithmic distributions, they belong to a family known as *power series distributions* (PSD) that are characterized by pmfs of the form

$$p_k(\theta) = \frac{a_k \theta^k}{A(\theta)}. \tag{7}$$

Here,  $a_k$  are nonnegative numbers,  $\theta \geq 0$  is a parameter, and  $A(\theta) = \sum_{k=0}^{\infty} a_k \theta^k$  (it is assumed that the sum exists) is the normalization function (Johnson et al. 2005). The pgf of PSD distributions is  $G(z, \theta) = A(\theta z)/A(\theta)$ . Lemma 2 lists several properties of the PSD family that prove useful later. Denote by  $G_\theta(z, \theta)$  and  $P'_k(\theta)$ , respectively, the derivatives of the pgf and cmf with respect to  $\theta$ .

LEMMA 2. *Suppose pmf  $p(\theta)$  is in the PSD family (7). Then the following statements hold:*

- (i) *The updated pmf  $\tilde{p}(\theta)$  is also in the PSD family.*
- (ii)  *$p(\theta)$  satisfies the ILR property.*
- (iii)  *$P'_k(\theta) \leq 0$  and  $G_\theta(z, \theta) \leq 0$ .*
- (iv)  *$-G_\theta(z, \theta)$  is log supermodular: For all  $\theta' > \theta$ ,  $G_\theta(z, \theta')/G_\theta(z, \theta)$  is increasing in  $z$ .*
- (v)  *$-P'_k(\theta)$  is log supermodular: For all  $\theta' > \theta$ ,  $P'_k(\theta')/P'_k(\theta)$  is increasing in  $k$ .*

Property (i) states that the PSD family is closed under the participation updating (1).<sup>15</sup> From property (ii) and Lemma 1, PSD distributions are FOSD-ordered by  $\theta$  (implying (iii)) and preserve the ordering under updating. Finally, the log-supermodularity properties (iv) and (v) play a key role in comparative statics.

### 2.4 Tullock contests

The equilibrium of the popular contest model of Tullock (1980), with the probability of player  $i$  winning the contest given by contest success function (CSF)  $e_i^r / \sum_{j \in \mathcal{K}} e_j^r$ , can be obtained as a special case of (4).

Consider a tournament with deterministic size  $k \geq 2$  and multiplicative noise with support in  $\mathbb{R}_+$  such that player  $i$ 's output is  $y_i = e_i X_i$ . Letting  $\hat{e}_i = \log e_i$  and  $\hat{X}_i = \log X_i$ , this model is transformed into the additive noise model in which noise has cdf  $\hat{F}(x) = F(\exp(x))$  and pdf  $\hat{f}(x) = f(\exp(x)) \exp(x)$ , and the cost of effort is  $\hat{c}(\hat{e}) = c(\exp(\hat{e}))$ . The

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<sup>15</sup>In some cases, the updated distribution is of the same type as the initial distribution. For example, for  $K \sim \text{Binomial}(n, q)$ , we have  $p_k = \binom{n}{k} q^k (1-q)^{n-k}$  (for  $k = 0, \dots, n$ ) and  $\tilde{p}_k = \binom{n-1}{k-1} q^{k-1} (1-q)^{n-k}$  (for  $k = 1, \dots, n$ ); that is,  $(\tilde{K} - 1) \sim \text{Binomial}(n - 1, q)$ . Similarly, for  $K \sim \text{Poisson}(\lambda)$ , we have  $p_k = \exp(-\lambda) \lambda^k / k!$  (for  $k = 0, 1, \dots$ ) and  $\tilde{p}_k = \exp(-\lambda) \lambda^{k-1} / (k-1)!$  (for  $k = 1, 2, \dots$ ); that is,  $(\tilde{K} - 1) \sim \text{Poisson}(\lambda)$ . It is possible, however, for the updated distribution to be of a different type (albeit still within the PSD family). For example, for  $K \sim \text{Logarithmic}(\theta)$ , where  $\theta \in (0, 1)$ , we have  $p_k = -\theta^k / [k \ln(1 - \theta)]$ ,  $\tilde{p}_k = -\theta / [(1 - \theta) \ln(1 - \theta)]$ , and  $\tilde{p}_k = (1 - \theta) \theta^{k-1}$ ; that is,  $\tilde{K}$  has the geometric distribution with parameter  $1 - \theta$ .

first-order condition (5) then becomes  $\hat{c}'(\hat{e}) = \hat{b}_k$ , where  $\hat{b}_k$  is given by (3) with  $F$  and  $f$  replaced by  $\hat{F}$  and  $\hat{f}$ .

Notice that  $\hat{c}'(\hat{e}) = c'(\exp(\hat{e})) \exp(\hat{e}) = c'(e)e$ . Thus, if  $c(e)$  is the original cost function in the model with multiplicative noise, the corresponding additive noise model has the transformed cost function of the form

$$c_m(e) = \int_0^e c'(t)t dt.$$

To obtain the equilibrium of the Tullock contest, consider the model with multiplicative noise following the inverse exponential distribution,  $F(x) = \exp(-x^{-r})$  (Hirshleifer and Riley 1992, Jia 2008, Jia et al. 2013). The transformed noise then has the generalized extreme value type I (or Gumbel) distribution with cdf  $\hat{F}(x) = \exp[-\exp(-rx)]$  and pdf  $\hat{f}(x) = r \exp[-rx - \exp(-rx)]$ . Equation (3) then produces

$$\hat{b}_k = \frac{r(k-1)}{k^2}. \quad (8)$$

Assuming the original contest has a linear cost of effort  $c(e) = e$ , the transformed cost of effort is quadratic:  $c_m(e) = \int_0^e t', dt = e^2/2$ . First-order condition (5) then gives the well known equilibrium effort in the Tullock contest,  $e_k^* = r(k-1)/k^2$ .

For stochastic contest size, (4) reproduces the model studied by Myerson and Wärneryd (2006) and, when  $K$  is binomial, the models of Münster (2006) and Lim and Matros (2009). The approach can also be extended to generalized Tullock contests with CSFs of the form  $g(e_i) / \sum_{j=1}^k g(e_j)$ , where  $g(\cdot)$  is a strictly increasing ‘‘impact function’’ (Jia 2008, Ryvkin and Drugov 2017).

### 3. INDIVIDUAL EQUILIBRIUM EFFORT

In this section, we consider how individual equilibrium effort changes when the number of players in the tournament is stochastically increased. For maximum generality, we directly assume that  $\tilde{K}$  is FOSD-ordered in parameter  $\theta$ . By Lemma 1, this holds when  $p(\theta)$  has the ILR property (e.g., when  $K$  belongs to the PSD family; cf. Lemma 2), but the results of this section are still valid even if it does not.

Parameter  $\theta$  can be continuous, such as  $q$  when  $K \sim \text{Binomial}(n, q)$  or  $\lambda$  when  $K \sim \text{Poisson}(\lambda)$ , or a discrete index, such as  $n$  when  $K \sim \text{Binomial}(n, q)$  or  $k$  when  $K = k$  deterministically. In the continuous case, we assume that  $p(\theta)$  is differentiable in  $\theta$ . Subscript  $\theta$  is used to denote both the derivative and the first difference.

In Section 3.1, we formulate our main result for unimodal noise densities, Proposition 1, and explain the underlying intuition. In Section 3.2, we revisit the existing results in the literature connecting them to special cases of Proposition 1 and provide some further results.

#### 3.1 Comparative statics for unimodal noise distributions

PROPOSITION 1. *Suppose  $\tilde{K}$  is FOSD-increasing in  $\theta$  and*

- (i)  $f(x)$  is unimodal,
- (ii)  $-\tilde{G}_\theta(z, \theta)$  is log supermodular.

Then  $e_{p(\theta)}^*$  is unimodal in  $\theta$ .

**Proposition 1** states that the unimodality of the pdf of noise  $f(\cdot)$  is “inherited” by the equilibrium effort  $e_{p(\theta)}^*$  under some condition on the distribution of the number of players.

For the intuition, consider a tournament of deterministic size  $k \geq 2$ . Coefficients  $b_k$  in (3) can be rewritten as

$$b_k = \int f(x) dF(x)^{k-1} = \int f(x)f_{(k-1:k-1)}(x) dx, \tag{9}$$

where  $F(x)^{k-1}$  is the cdf of the  $(k - 1)$ th order statistic among  $k - 1$  i.i.d. draws from distribution  $F$ , and  $f_{(k-1:k-1)}(x) = dF(x)^{k-1}/dx$  is the corresponding pdf. In the symmetric equilibrium, player  $i$  wins the tournament if her realization of noise,  $X_i$ , exceeds  $X_{(k-1:k-1)} = \max_{j \neq i} X_j$ , which is the largest shock among the other  $k - 1$  players. A marginal increase in the player’s effort is then pivotal when there is a tie between the two shocks, i.e., it is determined by the probability density of  $X_i - X_{(k-1:k-1)}$  at zero.

Representation (9) immediately leads to comparative statics results for monotone pdfs  $f(x)$  (see Section 3.2). Indeed,  $b_k = \mathbb{E}(f(X_{(k-1:k-1)}))$  and  $X_{(k-1:k-1)}$  is FOSD-increasing in  $k$ . For nonmonotone distributions, however, the effect of an increase in  $k$  is ambiguous: both higher and lower values of  $f(x)$  acquire higher weights in the expectation. To obtain comparative statics for unimodal distributions, **Proposition 1** applies results on the preservation of unimodality under integration. These results are parallel to those of **Karlin (1968)** on the preservation of single crossing, since a unimodal function has a single-crossing derivative.

For illustration, consider expectation  $\gamma(\theta) = \int_0^1 u(z) dH(z, \theta)$ , where  $u(z)$  is interior unimodal, continuous, and piecewise differentiable, and  $H(z, \theta)$  is an absolutely continuous cdf of a random variable FOSD-increasing in  $\theta$ . Since  $u(1)$  is finite for an interior unimodal  $u(z)$ , integration by parts gives  $\gamma(\theta) = u(1) - \int_0^1 u'(z)H(z, \theta) dz$ . Then the derivative, or first difference, of  $\gamma(\theta)$  is  $\gamma_\theta(\theta) = -\int_0^1 u'(z)H_\theta(z, \theta) dz$ . Following **Karlin (1968)**, for  $u'(z)$  single crossing  $+-$  and  $-H_\theta(z, \theta)$  log supermodular,  $\gamma_\theta(\theta)$  is also single crossing  $+-$  and, hence,  $\gamma(\theta)$  is unimodal.<sup>16</sup>

For tournaments with deterministic size  $k$ ,  $\theta = k$  and the role of  $H(z, \theta)$  is played by  $F(x)^{k-1}$  (cf. (9)). It is easy to see that  $-H_\theta = F(x)^{k-1} - F(x)^k$  is log supermodular, leading to the following result.

**COROLLARY 1.** *In tournaments with deterministic size  $k$ , if  $f(x)$  is unimodal, then  $e_k^*$  is unimodal in  $k$ .*

<sup>16</sup> **Karlin (1968)** refers to log supermodularity as *total positivity* of order 2,  $TP_2$ . More generally, total positivity of order  $r \geq 2$ ,  $TP_r$ , is sufficient for a *variation-diminishing property* of integration whereby the number of crossings of an integral cannot exceed the number of crossings of the integrated function as long as the latter does not exceed  $r - 1$ . Therefore, **Proposition 1** can be generalized to multimodal densities. For details, see **Appendix A.2**.

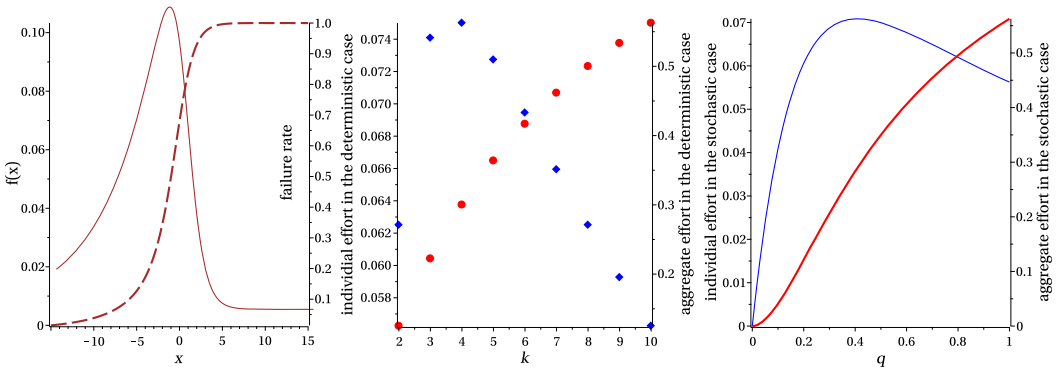


FIGURE 1. Left: The pdf  $f(x)$  (thin solid line) and the failure rate  $h(x)$  (thick dashed line) of the type I generalized logistic distribution with  $a = \frac{1}{6}$ . Center: Individual (diamonds) and aggregate (circles) equilibrium efforts in the deterministic case as a function of the number of players  $k$  for effort cost function  $c(e) = e^2/2$ . Right: Individual (thin line) and aggregate (thick line) equilibrium efforts in the stochastic case, with  $K \sim \text{Binomial}(10, q)$  for effort cost function  $c(e) = e^2/2$ .

When the number of players is stochastic, the result on the preservation of unimodality has to be applied once more, this time to the expectation of a unimodal sequence  $B_{p(\theta)} = \sum_{k=1}^n \tilde{p}_k(\theta) b_k$ . In this case, the role of  $H(z, \theta)$  is played by  $\tilde{P}_k(\theta)$ , the cmf of  $\tilde{K}$ . However, due to representation (6), the log-supermodularity condition can be checked for  $-\tilde{G}_\theta(z, \theta)$  instead. Proposition 1 then proves that  $B_{p(\theta)}$  (and  $e_{p(\theta)}^*$ ) is unimodal in  $\theta$ .

The log-supermodularity condition in Proposition 1 holds for PSD distributions of tournament size (cf. Lemma 2(iv)), producing the following result.

COROLLARY 2. *If  $p(\theta)$  is in the PSD family (7) and  $f(x)$  is unimodal, then  $e_{p(\theta)}^*$  is unimodal in  $\theta$ .*

For an example of interior unimodal effort, consider the type I generalized logistic distribution, which has cdf  $F(x) = 1/(1 + \exp(-x))^a$  with parameter  $a > 0$  (Johnson et al. 1995). The standard logistic distribution is obtained for  $a = 1$ .<sup>17</sup> Then  $b_k = a(k - 1)/[k(ak + 1)]$ . Since  $b_{k+1} - b_k \propto 1 + a - ak(k - 1)$  is decreasing in  $k$ ,  $b_k$  (and, hence,  $e_k^*$ ) is either monotonically decreasing or interior unimodal. In particular,  $b_k$  reaches its maximum at  $\hat{k}$  if  $a = 1/(\hat{k}^2 - \hat{k} - 1)$ . When the number of players is stochastic, with a distribution satisfying the log-supermodularity condition (ii) of Proposition 1, this unimodality is transferred to the equilibrium effort as the number of players is FOSD-increasing. Figure 1 shows the dependence of the equilibrium effort on  $k$  when the tournament size is deterministic (center), and on parameter  $q$  when the number of players is stochastic and distributed as Binomial(10,  $q$ ) (right). The latter distribution is PSD and, hence, satisfies condition (ii).

<sup>17</sup>The example has to involve an asymmetric unimodal distribution since effort is monotonically decreasing when  $f(\cdot)$  is symmetric unimodal; see Section 3.2.

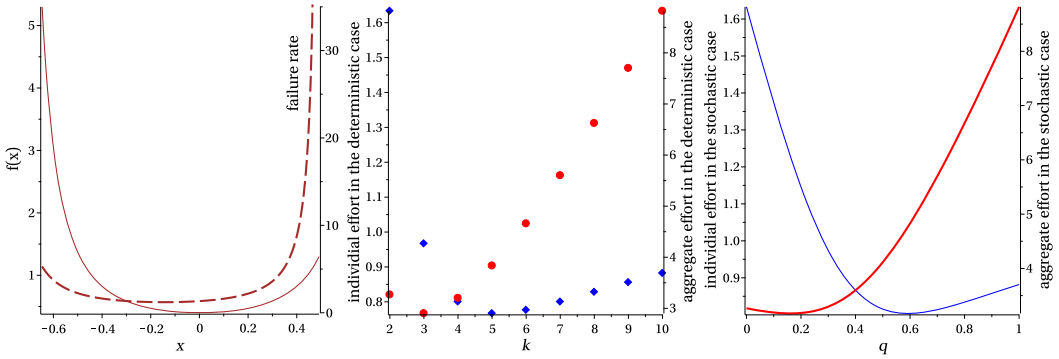


FIGURE 2. Left: The pdf  $f(x)$  (thin solid line) and the failure rate  $h(x)$  (thick dashed line) of a noise distribution with cdf  $F(x) = 0.2 \tan(2x) + 0.7$  defined on  $[-0.646, 0.491]$ . Center: Individual (diamonds) and aggregate (circles) equilibrium efforts in the deterministic case as a function of the number of players  $k$  for effort cost function  $c(e) = e^2/2$ . Right: Individual (thin line) and aggregate (thick line) equilibrium effort in the stochastic case, with  $K$  distributed as truncated Binomial(10,  $q$ ) with  $K \geq 2$ , for effort cost function  $c(e) = e^2/2$ .

Figure 3 gives an example of a log-normal distribution that is unimodal. The equilibrium effort is monotonically decreasing in the deterministic case and is interior unimodal in the stochastic case. These comparative statics are similar to those for the Tullock contest that we discuss in Section 3.2.

Proposition 1 also allows us to characterize the behavior of  $e_{p(\theta)}^*$  for  $U$ -shaped noise distributions such that  $-f(x)$  is unimodal.

COROLLARY 3. Suppose  $\tilde{K}$  is FOSD-increasing in  $\theta$  and

- (i)  $f(x)$  is  $U$ -shaped,
- (ii)  $-\tilde{G}_\theta(z, \theta)$  is log supermodular,
- (iii) a one-player tournament is not possible,  $p_1(\theta) = 0$ .

Then  $e_{p(\theta)}^*$  is  $U$ -shaped in  $\theta$ .

Corollary 3 is a mirror image of Proposition 1, bar condition (iii) that appears for the following reason. When  $f(x)$  is  $U$ -shaped, sequence  $b_k$  (and, hence, effort  $e_k^*$  in the deterministic case) is also  $U$ -shaped, but only starting with  $k = 2$ , since  $b_1 = 0$ . Therefore, the entire sequence  $b_k$  starting with  $k = 1$  may be (interior) bimodal and, hence, the comparative statics may also be bimodal if  $p_1 > 0$ . Condition (iii) excludes this possibility. Figure 2 shows an example of a  $U$ -shaped distribution of noise that produces a  $U$ -shaped  $e_k^*$  for  $k \geq 2$  in the deterministic case and a  $U$ -shaped dependence of  $e_{p(\theta)}^*$  on  $\theta$  for stochastic  $K$  distributed as Binomial(10,  $q$ ) truncated so that  $K \geq 2$ .

### 3.2 Comparative statics under stronger assumptions on $f(\cdot)$

The literature so far has studied the comparative statics of individual effort in Lazear–Rosen tournaments only in the deterministic case and assuming monotone or symmetric unimodal noise densities. For Tullock contests, the analysis has been done in the stochastic case for  $K$  binomial. In this section, we review and comment on these results and present more general versions.

As discussed below representation (9) for coefficients  $b_k$ , the case of monotone densities  $f(x)$  is straightforward.

**COROLLARY 4.** *Suppose  $\tilde{K}$  is FOSD-increasing in  $\theta$ .*

- (i) *If  $f(x)$  is increasing, then  $e_{p(\theta)}^*$  is increasing in  $\theta$ .*
- (ii) *If  $f(x)$  is decreasing and a one-player tournament is not possible ( $p_1(\theta) = 0$ ), then  $e_{p(\theta)}^*$  is decreasing in  $\theta$ .*
- (iii) *Effort  $e_{p(\theta)}^*$  is constant in  $\theta$  for any  $p(\theta)$  such that  $p_1(\theta) = 0$  if and only if  $f(x)$  is constant.*

The deterministic version of **Corollary 4** (except the “only if” part of (iii)) was proved by **Gerchak and He (2003)** and **List et al. (forthcoming)**. The stochastic version follows simply from the representation  $B_{p(\theta)} = \mathbb{E}(b_{\tilde{K}})$ ; cf. (4).

**Lim and Matros (2009)** provide the most comprehensive comparative statics results for Tullock contests with  $K \sim \text{Binomial}(n, q)$ , showing that individual equilibrium effort is unimodal in  $q$  and in  $n$ . The extreme value type I distribution underlying the Tullock contest model has a unimodal density. While coefficients  $b_k$  are decreasing for  $k \geq 2$  (cf. (8)), the entire sequence  $\{b_k\}_{k=1}^n$  including  $b_1 = 0$  is interior unimodal. Since  $p_1 = nq(1 - q)^{n-1} > 0$ , the unimodality of  $e_p^*$  in  $q$  and  $n$  follows from **Proposition 1**.<sup>18</sup> Truncating the binomial distribution so that  $p_0 = p_1 = 0$  would produce a decreasing dependence on  $q$ .

For the deterministic case, **Gerchak and He (2003)** show that  $e_2^* = e_3^*$  when  $f(x)$  is symmetric. If  $f(x)$  is also unimodal, then  $e_k^*$  is decreasing in  $k$  for  $k \geq 3$ . The following proposition generalizes this result to the stochastic case.

**PROPOSITION 2.** *Suppose  $\tilde{K}$  is FOSD-increasing in  $\theta$ .*

- (i) *If  $f(x)$  is symmetric and  $\text{supp}(K) = \{2, 3\}$ , then  $e_{p(\theta)}^*$  is constant in  $\theta$ .*
- (ii) *If  $f(x)$  is unimodal and symmetric, and  $p_1(\theta) = 0$ , then  $e_{p(\theta)}^*$  is decreasing in  $\theta$ .*

Moreover, for a U-shaped and symmetric  $f(x)$ , part (ii) of **Proposition 2** implies that  $e_{p(\theta)}^*$  is increasing in  $\theta$ .

<sup>18</sup>The binomial distribution is in the PSD family with respect to parameter  $q$ ; hence, for the dependence on  $q$ , the result follows from **Corollary 2**. For the dependence on  $n$ , note that  $\tilde{G}(z, n) = (1 - q + qz)^{n-1}$  and  $-\tilde{G}_n(z, n)$  is log supermodular.

Finally, [Ryvkin and Drugov \(2017\)](#) also analyze comparative statics in tournaments with a large deterministic number of players. The representation  $b_k = \mathbb{E}(f(X_{(k-1:k-1)}))$  shows that as  $k$  becomes large, the comparative statics are determined by the shape of the upper tail of  $f(\cdot)$ .

#### 4. AGGREGATE EQUILIBRIUM EFFORT

In this section, we explore the effects of a stochastic increase in the number of players on expected aggregate effort:

$$E_{p(\theta)}^* = \bar{k}(\theta)e_{p(\theta)}^* = \bar{k}(\theta)c'^{-1}(B_{p(\theta)}). \tag{10}$$

We use  $E_k^* = kc'^{-1}(b_k)$  to denote aggregate effort for tournaments with deterministic size  $k$ . Throughout this section, it can be assumed that the original number of players,  $K$ , is FOSD increasing in  $\theta$ . We no longer have to deal with  $\tilde{K}$ , because, unlike individual effort, aggregate effort is determined from an outsider's perspective.

If individual effort in the deterministic case,  $e_k^* = c'^{-1}(b_k)$ , is constant or increasing in  $k$  (i.e., when  $b_k$  is constant or increasing), it is obvious that aggregate effort is increasing in  $\theta$ . However, as discussed in [Section 3](#), for many noise distributions, individual effort is decreasing or nonmonotone in the number of players and, hence, the comparative statics of aggregate effort are unclear. For example, in the Tullock contest with linear costs  $c(e) = e$ , individual effort  $e_k^* = r(k - 1)/k^2$  is decreasing, but aggregate effort  $E_k^* = r(k - 1)/k$  is increasing in  $k$  for  $k \geq 2$  (cf. [Section 2.4](#)).

Yet, a very crisp characterization of aggregate effort is possible through the behavior of the failure (or hazard) rate of noise,  $h(x) = f(x)/[1 - F(x)]$ . We say that distribution  $f(x)$  is IFR (increasing failure rate) if  $h(x)$  is increasing and is DFR (decreasing failure rate) if  $h(x)$  is decreasing. Further, for two strictly increasing functions  $c_1(\cdot)$  and  $c_2(\cdot)$ , we say that  $c_1(\cdot)$  is *more (less) convex* than  $c_2(\cdot)$  if  $c_1(c_2^{-1}(\cdot))$  is convex (concave). Our main result for aggregate effort is given by the following proposition.

**PROPOSITION 3.** *Suppose  $K$  is FOSD-increasing in  $\theta$ .*

- (i) *If  $f(x)$  is IFR and  $c(e)$  is more convex than quadratic, then  $E_{p(\theta)}^*$  is increasing in  $\theta$ .*
- (ii) *If  $f(x)$  is DFR,  $c(e)$  is less convex than quadratic, and there are at least two players ( $p_0(\theta) = p_1(\theta) = 0$ ), then  $E_{p(\theta)}^*$  is decreasing in  $\theta$ .*

Let us first explain why the failure rate of noise plays a prominent role in the analysis of aggregate effort. Coefficients  $b_k$  (3) can be rewritten as  $b_k = (k - 1) \int F(x)^{k-2} [1 - F(x)]h(x) dF(x)$ . Note that the density of  $X_{(k-1:k)}$ , the second highest order statistic among  $k$  noise realizations, is  $f_{(k-1:k)}(x) = k(k - 1)F(x)^{k-2}[1 - F(x)]f(x)$ . Therefore,  $b_k$  becomes

$$b_k = \frac{1}{k} \int f_{(k-1:k)}(x)h(x) dx = \frac{1}{k} \mathbb{E}(h(X_{(k-1:k)})). \tag{11}$$

In equilibrium, winning a tournament with  $k \geq 2$  players can be interpreted as both surpassing  $X_{(k-1:k-1)}$ , the highest shock among the other  $k - 1$  players, and surpassing

$X_{(k-1:k)}$ , the second highest shock among all  $k$  players. Note that the failure rate can be written as  $h(x) = f(x|X \geq x)$ , i.e., the pdf of noise at  $X = x$  conditional on  $X \geq x$ . However, only realizations of noise exceeding  $X_{(k-1:k)}$  can lead to winning; therefore,  $\mathbb{E}(h(X_{(k-1:k)})) = \mathbb{E}(f(X_{(k-1:k)}|X \geq X_{(k-1:k)}))$  gives exactly the relevant conditional expectation. To obtain  $b_k$ , it needs to be multiplied by  $\mathbb{P}(X \geq X_{(k-1:k)}) = 1/k$ .

Consider a tournament with deterministic size  $k \geq 2$  and quadratic cost function,  $c(e) = e^2/2$ , producing individual effort  $e_k^* = b_k$ . Using (11), aggregate effort is then  $E_k^* = kb_k = \mathbb{E}(h(X_{(k-1:k)}))$ . Since  $X_{(k-1:k)}$  is FOSD-increasing in  $k$ , the comparative statics in the case of a monotone failure rate  $h(x)$  follow immediately.

Most standard distributions fall into one of the monotone failure rate classes. IFR is implied by the log concavity of pdf  $f(x)$ , while DFR is implied by the log convexity of  $f(x)$  provided  $f(\bar{x}) = 0$ . The exponential distribution, with  $f(x) = \lambda \exp(-\lambda x)$ , has a constant failure rate  $\lambda$  and, hence, is both IFR and DFR.

For tournaments with a stochastic number of players, still assuming the cost function is quadratic, (4) gives aggregate effort in the form

$$E_{p(\theta)}^* = \bar{k}(\theta) \sum_{k=1}^n \tilde{p}_k(\theta) b_k = \sum_{k=0}^n p_k(\theta) k b_k = \sum_{k=0}^n p_k(\theta) E_k^*.$$

When noise has a monotone failure rate,  $E_k^*$  is monotone for  $k \geq 2$ , as explained above. Moreover, when noise is IFR,  $E_k^*$  is increasing for  $k \geq 0$  because  $E_0^* = E_1^* = 0$ ; therefore,  $E_{p(\theta)}^*$  is increasing in  $\theta$ . However, when noise is DFR,  $E_k^*$  is no longer monotone for all  $k$ , and a restriction  $K \geq 2$  has to be imposed to ensure that  $E_{p(\theta)}^*$  is decreasing in  $\theta$ .

Finally, consider the effect of the cost function. For a general cost function, aggregate effort  $E_{p(\theta)}^*$  is given by (10). An increase in  $\theta$  has two effects: A direct effect, due to the increase in  $\bar{k}(\theta)$ , and an indirect effect, due to the equilibrium change in  $B_{p(\theta)}$ . The latter effect can go in either direction, but it becomes less important as the cost function becomes “more convex.” In other words, if the direct effect of a higher  $\bar{k}(\theta)$  dominates the effect of  $B_{p(\theta)}$  for some cost function, this is also the case for “more convex” cost functions.

The definition of cost function  $c_1(\cdot)$  being more convex than  $c_2(\cdot)$  is equivalent to requiring that there exists a strictly increasing, convex function  $\eta(\cdot)$  such that  $c_1(e) = \eta(c_2(e))$ ; indeed, defining  $t = c_2(e)$ , we obtain  $\eta(t) = c_1(c_2^{-1}(t))$ . This partial order is related to the likelihood ratio order of random variables, whereby a random variable  $X$  is said to be smaller than random variable  $Y$  if the ratio of pdfs  $f_Y(x)/f_X(x)$  is increasing in  $x$ . An equivalent condition is that  $F_Y(F_X^{-1}(z))$  is convex (the convex transform order in Shaked and Shanthikumar 2007). In our case, it implies that the ratio of marginal costs  $c'_1(e)/c'_2(e)$  is increasing in  $e$ . The definition of a less convex function is analogous.<sup>19</sup>

<sup>19</sup>It follows that a cost function  $c(e)$  is more convex than quadratic if  $c(\sqrt{t})$  is convex in  $t$  or, equivalently, the ratio  $c'(e)/e$  is increasing. Thus, a cost function is more convex than quadratic if the marginal cost increases faster than linear. For thrice differentiable functions, this condition implies  $c''' \geq 0$  and is equivalent to it provided  $c'(0) = 0$ . Indeed, the condition that  $c'(e)/e$  is increasing is equivalent to  $c''(e)e \geq c'(e)$ , which implies that  $c'(e)$  is convex. Conversely, if  $c'(0) = 0$ , the convexity of  $c'(e)$  implies  $c''(e)e \geq c'(e)$ . A less convex than quadratic function has  $c''' \leq 0$ .



The results for Tullock contests with linear costs mentioned at the beginning of this section follow from Proposition 3 because, as shown in Section 2.4, the properties of equilibrium in such a contest are equivalent to those of a tournament with a quadratic cost function and Gumbel distribution of noise, which is IFR. Figure 1 illustrates the case of a logistic distribution that is also IFR.

The exponential distribution has a constant failure rate, leading to the following result.

**COROLLARY 5.** *Suppose  $K$  is FOSD-increasing in  $\theta$ , noise is exponentially distributed with pdf  $f(x) = \lambda \exp(-\lambda x)$ , the cost of effort is quadratic,  $c(e) = e^2/2$ , and there are at least two players ( $p_0(\theta) = p_1(\theta) = 0$ ). Then  $E_{p(\theta)}^* = \lambda$  is constant.*

To understand why aggregate effort can decrease in the number of players for DFR distributions of noise, note that such a distribution has a decreasing pdf that falls faster than its cdf is increasing. Hence, individual effort is decreasing (see Corollary 4(ii)) and so fast that aggregate effort decreases too. For a simple example, consider the  $F$  distribution with (2,2) degrees of freedom, whose pdf and cdf are  $f(x) = 1/(1+x)^2$  and  $F(x) = x/(1+x)$  defined for  $x \geq 0$ . This gives  $b_k = 2/[k(k+1)]$  and, for the quadratic cost function, aggregate effort  $E_k^* = 2/(k+1)$  is strictly decreasing in  $k$ .

A result similar to Proposition 1, which shows that individual effort is unimodal for a unimodal pdf  $f(x)$  under an additional log-supermodularity condition, can be formulated for aggregate effort when failure rate  $h(x)$  is unimodal and the cost of effort is quadratic. Here,  $P'_k(\theta)$  denotes the derivative or first difference of the cmf with respect to  $\theta$ .

**PROPOSITION 4.** *Suppose  $K$  is FOSD-increasing in  $\theta$ ,  $c(e) = e^2/2$ , and*

- (i)  $h(x)$  is unimodal,
- (ii)  $-P'_k(\theta)$  is log supermodular.

*Then  $E_{p(\theta)}^*$  is unimodal in  $\theta$ .*

In the deterministic case,  $E_k^* = \mathbb{E}(h(X_{(k-1:k)})) = \int h(x) dF_{(k-1:k)}(x)$  and the unimodality of  $E_k^*$  follows from the log supermodularity of  $-F_{(k-1:k)}(x)$ . Therefore, in the stochastic case,  $E_{p(\theta)}^* = \sum_{k=0}^n p_k(\theta) E_k^*$  is an expectation of a unimodal sequence. The unimodality of  $E_{p(\theta)}^*$  is then ensured by the log-supermodularity condition (ii). It is satisfied by PSD distributions (see Lemma 2(v)), leading to the following result. For an illustration, see Figure 3.

**COROLLARY 6.** *If  $K$  is in the PSD family (7),  $c(e) = e^2/2$ , and  $h(x)$  is unimodal, then  $E_{p(\theta)}^*$  is unimodal in  $\theta$ .*

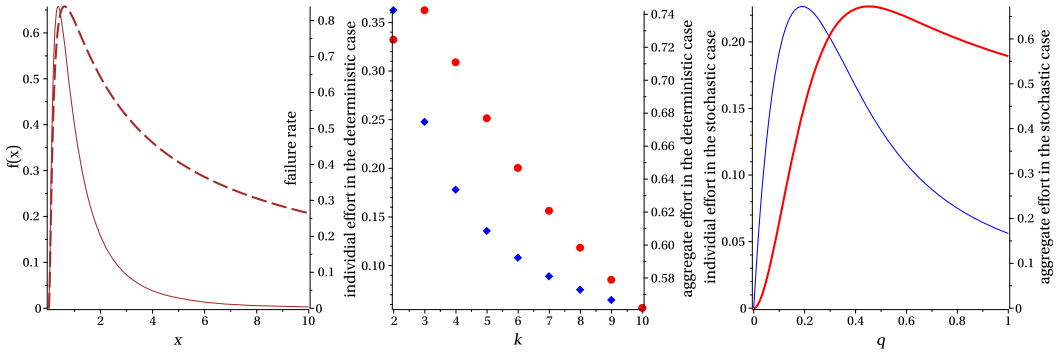


FIGURE 3. Left: The pdf  $f(x)$  (thin solid line) and the failure rate  $h(x)$  (thick dashed line) of the log-normal distribution with parameters  $(0, 1)$ . Center: Individual (diamonds) and aggregate (circles) equilibrium efforts in the deterministic case as a function of the number of players  $k$  for effort cost function  $c(e) = e^2/2$ . Right: Individual (thin line) and aggregate (thick line) equilibrium efforts in the stochastic case, with  $K \sim \text{Binomial}(10, q)$  for effort cost function  $c(e) = e^2/2$ .

Similar to the case of individual effort (Proposition 1 and Corollary 3), Proposition 4 also implies that  $E_{p(\theta)}^*$  is U-shaped for distributions with a U-shaped failure rate (assuming  $p_0 = p_1 = 0$ ). For an illustration, see Figure 2.<sup>20</sup>

### 5. APPLICATIONS TO TOURNAMENT DESIGN

In this section, we investigate optimal design questions for tournaments with stochastic participation. Section 5.1 looks at how the level of uncertainty in the number of players affects aggregate effort. In Section 5.2, the question is whether it is optimal, from an ex ante perspective, to disclose the realized number of players. Finally, in Section 5.3, we briefly comment on the objective of maximizing the best performance.

#### 5.1 The effect of uncertainty in the number of players

Is uncertainty in the number of players beneficial or detrimental for aggregate effort? The following proposition provides a general answer for any two distributions of the number of players ranked by second-order stochastic dominance (SOSD).

PROPOSITION 5. Consider two group size distributions,  $p$  and  $p'$ , with the same mean  $\bar{k}$  such that there are at least two players ( $p_0 = p_1 = p'_0 = p'_1 = 0$ ) and  $p'$  dominates  $p$  in the SOSD order. Then  $E_{p'}^* \geq (\leq) E_p^*$  if  $f(x)$  is log concave (log convex); moreover, the inequality is strict if  $f(x)$  is strictly log concave (log convex).

Proposition 5 says that higher uncertainty about the number of players (in the SOSD sense) reduces expected aggregate effort if noise has a log-concave distribution. For a

<sup>20</sup>More generally, as in the case of individual effort, Proposition 4 can be generalized to multimodal  $h(x)$  under higher order total positivity of  $-P'_k(\theta)$ ; see footnote 16. The behavior of aggregate effort in large tournaments is determined by the shape of the failure rate in the upper tail.

log-convex noise distribution, the relationship is reversed. The comparison between aggregate efforts  $E_{p'}^*$  and  $E_p^*$  is equivalent to a comparison between individual efforts  $e_{p'}^*$  and  $e_p^*$  since the mean group size  $\bar{k}$  is the same, which amounts to a comparison between  $B_{p'}$  and  $B_p$ . Equation (4) can be written as

$$B_p = \frac{1}{\bar{k}} \mathbb{E}(Kb_K | K \geq 2) \mathbb{P}(K \geq 2);$$

that is,  $B_p$  is proportional to the expectation of  $Kb_K$  conditional on  $K \geq 2$ , and the assumption that there are always at least two players makes this expectation unconditional. Jensen's inequality can then be applied if  $kb_k$  is concave (convex) in  $k$  for  $k \geq 2$ , which is the case when  $f(x)$  is log concave (log convex).

As a special case, [Proposition 5](#) allows for a comparison of aggregate effort between tournaments with deterministic and stochastic group sizes. It implies that the presence of uncertainty in the number of players, as opposed to a tournament where the number of players is fixed and equal to  $\bar{k}$ , reduces expected aggregate effort in the Tullock contest (since the Gumbel distribution is log concave) and increases it for many heavy-tailed distributions such as Pareto (which is log convex). This is in contrast to the existing studies—restricted to Tullock contests—that compare aggregate effort in contests with deterministic and stochastic participation: [Myerson and Wärneryd \(2006\)](#), [Lim and Matros \(2009\)](#) and [Boosey et al. \(2019\)](#). All three show that uncertainty in the number of players always reduces aggregate effort.<sup>21</sup>

However, [Proposition 5](#) is more general than that and relates the ranking of expected aggregate effort to the SOSD order of group size distributions. It also shows that the presence of a heavy tail in the distribution of noise reverses the prevailing “intuition” that uncertainty in the number of players is detrimental for aggregate effort.

## 5.2 Optimal disclosure of the number of players

When the number of players  $K$  is stochastic, it might be possible for the tournament designer to reveal the realization of  $K$  to the players before they choose their efforts. Assuming commitment power, when does the tournament designer prefer to (commit to) disclose  $K$ ? [Lim and Matros \(2009\)](#) show that in a standard Tullock contest with a binomial distribution of the number of players, aggregate effort is independent of disclosure. [Fu et al. \(2011\)](#) generalize this result to contests with CSFs of the form  $g(e_i) / \sum_{j=1}^k g(e_j)$ . They show that full disclosure (no disclosure) is optimal if  $g(e)/g'(e)$  is strictly convex (concave), while the indifference is recovered when  $g(e)/g'(e)$  is linear. The following proposition generalizes these results to arbitrary tournaments and arbitrary distributions of the number of players.

<sup>21</sup>[Proposition 5](#) is not a direct generalization of [Myerson and Wärneryd \(2006\)](#) and [Lim and Matros \(2009\)](#) because these two papers allow for the possibility of having fewer than two players in the contest, under additional restrictions. A version of [Proposition 5](#) directly generalizing [Myerson and Wärneryd \(2006\)](#) and [Lim and Matros \(2009\)](#) is more nuanced and is available in [Ryvkin and Drugov \(2017\)](#). [Boosey et al. \(2019\)](#) consider contests between groups with stochastic size.

**PROPOSITION 6.** *Suppose  $b_k$  is nonconstant for  $k \geq 1$  in the support of  $p$  and  $c'(\cdot)$  is non-linear. Then it is optimal to disclose (not disclose) the number of participants in the tournament if  $c''' \leq (\geq) 0$ .*

Disclosure creates a mean-preserving variation in the marginal benefit of effort. Indeed, without disclosure, the (expected) marginal benefit of effort is  $c'(e_p^*) = B_p = \mathbb{E}(b_{\tilde{K}})$  (cf. (4)), whereas with disclosure, the realization of  $K$  is observed and effort is chosen according to  $c'(e_k^*) = b_k$ . Such variation then increases (decreases) expected individual effort if the marginal cost function is concave (convex); that is, if  $c''' \leq (\geq) 0$ . For a quadratic cost function (i.e., when  $c'(\cdot)$  is linear) disclosure is irrelevant. Note that the nature of coefficients  $b_k$  does not affect the optimality of disclosure. The only special case is when  $b_k$  is constant in the support of  $p$  for  $k \geq 1$  (for example, noise is uniformly distributed and  $p_1 = 0$ ), in which case disclosure does not matter.

The results of Fu et al. (2011) are recovered as a special case by introducing effective effort  $y = g(e)$ , which transforms their CSF into the lottery form and the cost of effort into  $c(y) = g^{-1}(y)$ . Following Section 2.4, the resulting cost of effort in the corresponding tournament with additive noise is  $c_m(y) = \int_0^y c'(t) dt$ , which gives the marginal cost  $c'_m(y) = c'(y)y = y/g'(g^{-1}(y)) = g(e)/g'(e)$ .

A similar effect of a (mean-preserving) variation in the marginal benefit of effort emerges in static biased contests (see Drugov and Ryvkin 2017) and dynamic contests where revealing interim information is equivalent to biasing the next stage (see Lizzeri et al. 1999, 2002, Aoyagi 2010). Parallel results regarding the role of  $c'''$  hold in those settings as well.

### 5.3 Best performance

Focusing on effort as the designer's objective is standard, and it is most easily justified under the assumption that noise, or luck, is unproductive and only distorts the perception, or measurement, of individual efforts. However, the designer may also be interested in maximizing the best performance. This objective is relevant in settings where noise is productive, such as innovation or design tournaments in which the winner's idea ends up being implemented and the rest are discarded.

For simplicity, consider a tournament with a deterministic number of players  $k \geq 2$  and define expected best performance  $y_k^{\max} = e_k^* + \mathbb{E}(X_{(k:k)})$ . As  $k$  increases,  $\mathbb{E}(X_{(k:k)})$ —the expectation of the best shock—increases as well, but equilibrium effort  $e_k^*$  may decrease, as, for example, in the Tullock contest or when  $f(x)$  is decreasing or symmetric unimodal (cf. Corollary 4 and Proposition 2). Due to this trade-off,  $y_k^{\max}$  may be non-monotone in  $k$ .

Figure 4 shows individual effort  $e_k^*$ , the expectation of the best shock  $\mathbb{E}(X_{(k:k)})$ , and the resulting expected best performance  $y_k^{\max}$  for a tournament with the Gumbel distribution of noise. The equilibrium effort in this tournament is the same as in the Tullock contest (cf. Section 2.4). As seen from the figure, while eventually  $y_k^{\max}$  is increasing in  $k$ , there is a range of  $k$  where it is declining.<sup>22</sup>

<sup>22</sup>An increase in  $k$  may interfere with the existence of the pure-strategy equilibrium we are studying (cf. Proposition 7 in Appendix A.1). The conditions of Proposition 7 are very general and, hence, rather strong.

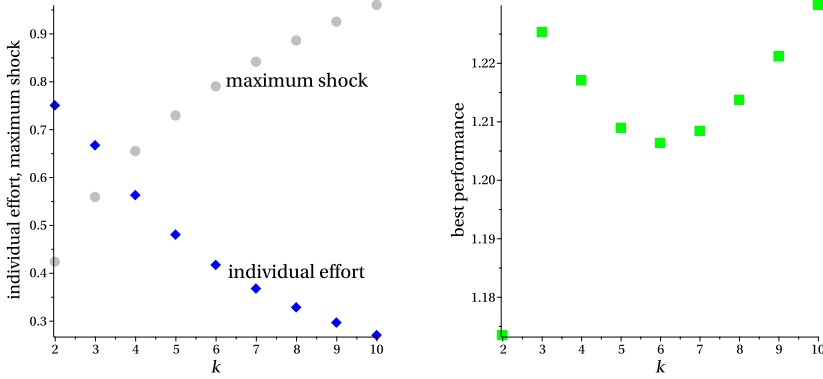


FIGURE 4. A tournament with the Gumbel distribution of noise with parameter  $\frac{1}{3}$  and cost function  $c(e) = e^2/2$ . Left: Individual effort  $e_k^*$  and expected maximum shocks  $\mathbb{E}(X_{(k:k)})$ . Right: Expected best performance  $y_k^{\max}$ .

A similar trade-off can emerge for a given number of players  $k$  when the intensity of noise increases.<sup>23</sup> For an explicit characterization, suppose the distribution of noise has a scale parameter  $\sigma > 0$  such that the pdf and cdf are  $f_\sigma(x) = (1/\sigma)f_1(x/\sigma)$  and  $F_\sigma(x) = F_1(x/\sigma)$ , where subscript 1 refers to the “standardized” distribution. Examples include the standard deviation of the normal distribution,  $1/\lambda$  for the exponential distribution and  $1/r$  for the Gumbel distribution. The expected best performance is then

$$y_k^{\max}(\sigma) = c'^{-1}\left(\frac{1}{\sigma}b_{1,k}\right) + \sigma\mathbb{E}(X_{1,(k:k)}).$$

The first term is decreasing in  $\sigma$ , while the second term is increasing; therefore,  $y_k^{\max}(\sigma)$  can be U-shaped. For illustration, suppose the noise is uniform on  $[-\sigma/2, \sigma/2]$  and the cost function is  $c(e) = e^2/2$ . A sufficient condition for the equilibrium existence is  $D_- < 1$ , where  $D_- = (k - 1)/\sigma^2$  (see Proposition 7 in Appendix A.1). The equilibrium effort is  $e_k^* = 1/\sigma$  and the expected best performance is

$$y_k^{\max}(\sigma) = \frac{1}{\sigma} + \frac{\sigma(k - 1)}{2(k + 1)}.$$

The derivative  $\partial y_k^{\max}/\partial \sigma$  changes sign at  $\sigma_0^2 = 2(k + 1)/(k - 1)$  and the equilibrium exists for  $\sigma^2 > k - 1$ ; therefore,  $y_k^{\max}(\sigma)$  is U-shaped in  $\sigma$  for  $k = 2, 3, 4$ .

For the example, in Figure 4, we explicitly verified that the payoff function  $\pi^{(i)}(e_i, e^*)$  (2) is maximized at  $e_i = e_k^*$  and, hence, the equilibrium exists for all parameter values used in the figure.

<sup>23</sup>In a large tournament model including the analysis of mixed-strategy equilibria for small noise, Morgan et al. (2018) show that aggregate effort can be nonmonotone in noise intensity due to players dropping out when the winner determination process becomes “too meritocratic.” Using a large contest assortative matching model of competition for college admissions, Olszewski and Siegel (2019) show that more noise in contest outcomes can increase students’ welfare. In a setting similar to this paper, Drugov and Ryvkin (2020) provide a systematic study of how equilibrium effort is affected by changes in the distribution of noise, and what it means to have “more noise” in a tournament.

## 6. CONCLUSION

Tournament incentives are ubiquitous. Students applying to universities, researchers competing for grants, R&D firms competing for innovation, job candidates applying for an opening or employees competing for promotion, and numerous other examples, are situations where participants' outcomes are determined jointly by ability, effort, and luck. Differences in ability stratify the playing field to some extent, but competition is the fiercest, and luck plays the biggest role, in tournaments among equally able contestants.

It is traditionally believed that competition increases productivity, fosters innovation, and promotes economic growth.<sup>24</sup> However, it is also easy to imagine how competition may discourage effort in winner-take-all environments where luck plays a significant role. Our results demonstrate that there is a nontrivial interplay between the two effects, and the nature of shocks—the “shape of luck”—matters for the willingness to compete.

We show that individual effort reacts to an increase in competition, be it deterministic or stochastic, in a way that essentially follows the shape of the density of noise. As long as the density is unimodal, individual effort is also unimodal in the number of players, but it can be increasing, decreasing, or nonmonotone when the distribution of noise is skewed. Aggregate effort behaves similarly, but following the shape of the failure rate of noise. Hence, the presence of heavy tails—a decreasing or interior unimodal failure rate—in the distribution of noise can lead to a *reduction* in aggregate effort with competition.

The results of this paper predict diverging effects of competition on aggregate effort (or investment) in tournaments characterized by different types of noise. Given the various contradictory findings and nonmonotonicities in the literature on the effects of competitive pressure on innovation (e.g., [Aghion et al. 2005](#), [Vives 2008](#)), our results provide an independent mechanism through which different reactions to competitive pressure may arise across industries or even within the same industry across time.

Heavy-tailed fluctuations are common in many areas often associated with tournament incentives, such as sales of creative and innovative products or the financial sector. Our results suggest that restricting competition can be beneficial in these settings.

Our last comment is methodological. The techniques developed in this paper can be extended to many applications of general tournament models, including optimal contract design and dynamic tournaments,<sup>25</sup> giving a new life to the literature that so far has been limited to considering a number of special cases.

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<sup>24</sup>There is a strand of literature analyzing the effect of market competition among firms on managerial effort that shows effort may go down due to endogenously adjusted managerial incentives (e.g., [Schmidt 1997](#)); (for an earlier survey, see [Vickers 1995](#)). There, competition has more than one effect (say, an information effect and changing margins), and the focus is on individual effort.

<sup>25</sup>For example, in companion papers [Drugov and Ryvkin \(2018\)](#) and [\(2019\)](#), we use them to obtain new general results on the optimal allocation of prizes.

APPENDIX A: TECHNICAL RESULTS

A.1 Equilibrium existence

Equilibrium existence and comparative statics are two separate issues, and in the paper we have focused on the latter. In this section, however, we address the equilibrium existence, which so far did not receive an adequate treatment in the literature on Lazear–Rosen tournaments. It is generally understood that a symmetric pure-strategy equilibrium exists if shocks  $X_i$  are sufficiently dispersed and/or the effort cost function  $c(\cdot)$  is sufficiently convex (see, e.g., [Nalebuff and Stiglitz 1983](#)), but general sufficient conditions for equilibrium existence have remained unknown.<sup>26</sup>

For  $e_p^*$  to be the unique symmetric equilibrium, it is sufficient to require that (i) (4) has a solution and (ii) payoff function  $\pi^{(i)}(e_i, e_p^*)$  (2) is strictly concave in  $e_i$ .<sup>27</sup> The main difficulty is in the “revenue” part of the payoff function that may not be globally concave because, in general,  $F(\cdot)$  is not concave; moreover, even if  $F(\cdot)$  is concave,  $F(\cdot)^{k-1}$  may not be, for a sufficiently large  $k$ . At the same time,  $c(\cdot)$  is strictly convex and, hence, a version of sufficient conditions can be obtained if the convexity of  $c(\cdot)$  is restricted in some way. The simplest approach is to impose a uniform restriction on  $c''(\cdot)$  on  $[0, \bar{e}]$ .<sup>28</sup>

Let  $f_m = \sup\{f(x) : x \in \mathcal{X}\}$ ,  $f'_{\max} = \sup\{f'(x) : x \in \mathcal{X}\}$  and  $f'_{\min} = \inf\{f'(x) : x \in \mathcal{X}\}$  denote the tight, possibly infinite, bounds of pdf  $f(\cdot)$  and its derivative  $f'(\cdot)$  on  $\mathcal{X}$ . We impose the following restrictions on the pdf of noise.

ASSUMPTION 1. (i)  $f(\cdot)$  is uniformly bounded; that is,  $f_m < \infty$ .

(ii)  $f'(\cdot)$  is uniformly bounded above or below or both; that is, either  $f'_{\max} < \infty$  or  $f'_{\min} > -\infty$  or both.

PROPOSITION 7. Suppose Assumption 1 is satisfied and the following conditions hold:

(i) There exists a  $c_0 > 0$  such that  $c''(e) \geq c_0$  for all  $e \in [0, \bar{e}]$ .

(ii)  $c_0 > D \equiv \min\{D_+, D_-\}$ , where

$$D_+ = \frac{\mathbb{E}[K(K-1)^2]}{\bar{k}} f_m^2 + \frac{\mathbb{E}[K(K-1)]}{\bar{k}} f'_{\max},$$

$$D_- = \frac{\mathbb{E}[K(K-1)]}{\bar{k}} (f_m^2 - f'_{\min}).$$
(12)

(iii)  $\mathbb{E}(K|K \geq 1)c(c^{-1}(f_m)) < 1$ .

Then  $e_p^*$  is the unique equilibrium in the tournament.

<sup>26</sup>For WTA Tullock contests, equilibrium existence and uniqueness are well understood; see [Szidarovszky and Okuguchi \(1997\)](#).

<sup>27</sup>Since  $\pi^{(i)}(0, e_p^*) \geq 0$ , conditions (i) and (ii) automatically imply that the symmetric equilibrium payoff is positive,  $\pi^{(i)}(e_p^*, e_p^*) > 0$ .

<sup>28</sup>Any effort  $e_i > \bar{e}$  is strictly dominated.

Conditions (i) and (ii) in Proposition 7 guarantee the global strict concavity of payoff function (2) in  $e_i$ , while condition (iii) ensures that (4) has a solution. The conditions are consistent with the intuition described above. For a given tournament model, they are easier to satisfy as noise becomes more dispersed (leading to a decrease in  $f_m$ ,  $f'_{\max}$ , and  $|f'_{\min}|$ ).

More explicitly, suppose noise has a scale parameter  $\sigma > 0$  such that its cdf and pdf are, respectively,  $F_\sigma(x) = F_1(x/\sigma)$  and  $f_\sigma(x) = (1/\sigma)f_1(x/\sigma)$ , where  $F_1(\cdot)$  and  $f_1(\cdot)$  characterize the “standardized” distribution. An increase in  $\sigma$  produces a larger variance, and a reduction in the SOSD order and in the *dispersive order* (Lewis and Thompson 1981).<sup>29</sup> This gives the bounds  $f_m(\sigma) = (1/\sigma)f_{1m}$ ,  $f'_{\min}(\sigma) = (1/\sigma^2)f'_{1\min}$ , and  $f'_{\max}(\sigma) = (1/\sigma^2)f'_{1\max}$ , producing  $D(\sigma) = (1/\sigma^2)D_1$ . Subscript 1 refers to the bounds for the standardized distribution. Condition (ii) then takes the form  $\sigma^2 c_0 > D_1$ , and condition (iii) is  $\sigma c'(c^{-1}(1/\mathbb{E}(K|K \geq 1))) > f_{1m}$ .

Additionally, conditions (ii) and (iii) are harder to satisfy as the number of players increases. Overall, the conditions of Proposition 7 are rather strong because the global strict concavity of the payoff function is not necessary. An alternative approach can be to impose a weaker restriction on  $c(\cdot)$ , but restrict attention to particular families of noise distributions. In contrast, for the purposes of this paper, we have chosen to formulate conditions with maximum flexibility for the shape of the distribution of noise, at the expense of a rather restrictive positivity of  $c''(\cdot)$  and substantial noise dispersion.

A quadratic cost function,  $c(e) = c_0 e^2/2$ , satisfies condition (i). Generally, functions satisfying condition (i) have the form  $c(e) = c_0 e^2/2 + \kappa(e)$ , where  $\kappa : [0, \bar{e}] \rightarrow \mathbb{R}_+$  is convex. Note that a function can satisfy the condition even if it is less convex than quadratic. For example, function  $c(e) = c_1 e^\xi$  has a positive second derivative bounded below by  $c_0 = \xi(\xi - 1)c_1 \bar{e}^{\xi-2}$  when  $\xi \in (1, 2]$ .

### A.2 Comparative statics for multimodal noise densities

More generally, one may ask whether there is any “higher-order” universality in the behavior of  $B_{p(\theta)}$  (and  $e^*_{p(\theta)}$ ) for multimodal densities. The answer is yes, to some extent. For deterministic tournament size, Proposition 1 relies on the fact that  $f'(x)$  is single-crossing and  $z^{k-1}(1 - z)$  is log supermodular in  $(z, k)$ . Log supermodularity is also known as total positivity of order 2 (TP<sub>2</sub>), a special case of total positivity of order  $r$  (TP <sub>$r$</sub> ), introduced by Karlin (1968).

Function  $v : S_1 \times S_2 \rightarrow \mathbb{R}$ , with  $S_1, S_2 \subseteq \mathbb{R}$ , is TP <sub>$r$</sub>  if for all  $l = 1, \dots, r$  and all sequences  $x_1 < \dots < x_l, y_1 < \dots < y_l$  ( $x_i \in S_1, y_j \in S_2$ ),

$$\det \begin{pmatrix} v(x_1, y_1) & \dots & v(x_1, y_l) \\ \vdots & & \vdots \\ v(x_l, y_1) & \dots & v(x_l, y_l) \end{pmatrix} \geq 0.$$

The *variation-diminishing property* of totally positive kernels (Karlin 1968) states that if function  $v(\cdot, \cdot)$  is TP <sub>$r$</sub>  and function  $\phi : S_2 \rightarrow \mathbb{R}$  changes sign  $j \leq r - 1$  times on  $S_2$ , then

<sup>29</sup>Drugov and Ryvkin (2020) show that ranking noise distributions in the dispersive order is necessary and sufficient to rank equilibrium effort in tournaments with arbitrary sizes and prize schedules.



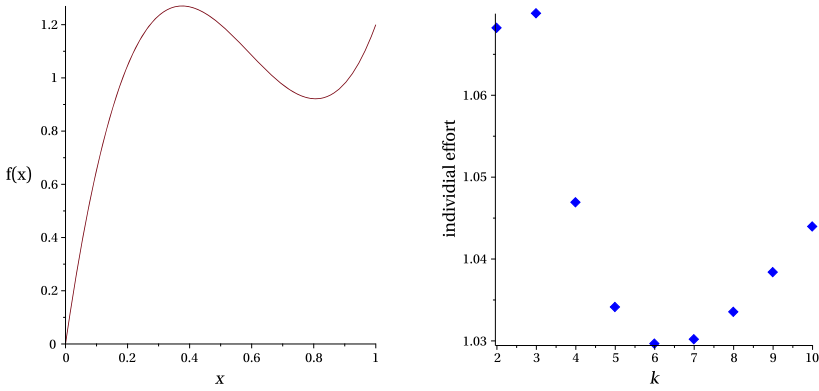


FIGURE 5. Left:  $f(x) = 8.8x^3 - 15.6x^2 + 8x$ . Right: Individual equilibrium effort  $e_k^*$  as a function of  $k$  for effort cost function  $c(e) = e^2/2$ .

function  $\tilde{\phi}(x) = \int_{S_2} v(x, y)\phi(y) dy$  changes sign at most  $j$  times on  $S_1$ . Moreover, if  $\tilde{\phi}$  changes sign exactly  $j$  times, then it follows the same sequence of sign changes as  $\phi$ . It can be shown that  $z^{k-1}(1 - z)$  is, in fact,  $TP_\infty$  (Marshall et al. 2011, p. 759); therefore, if  $f'(x)$  has any number  $j$  of sign changes, then  $b_{k+1} - b_k$  will have at most  $j$  sign changes.

We conclude that if  $f(x)$  has  $j$  modes,  $b_k$  (and  $e_k^*$ ) will have at most  $j$  modes, and if  $b_k$  has exactly  $j$  modes, then the sequence of local minima and maxima of  $b_k$  (and  $e_k^*$ ) will follow the shape of  $f(x)$ . The case of unimodal (or U-shaped)  $f(x)$  is special because  $f'(x)$  has at most one sign change and, hence,  $e_k^*$  is either monotone or interior unimodal (or U-shaped). Figure 5 illustrates a case when  $b_k$  and  $f(x)$  both have two modes, and  $e_k^*$  follows the shape of  $f(x)$ .

When  $K$  is stochastic, Proposition 1 can be generalized to the multimodal case with condition (ii) replaced by the requirement that  $-\tilde{G}_\theta(z, \theta)$  is  $TP_r$ . Similarly, Proposition 4 can be generalized to multimodal failure rates if  $-P'_k(\theta)$  is  $TP_r$ .

APPENDIX B: PROOFS

PROOF OF LEMMA 1. The fact that ILR implies FOSD ordering is well known (see, e.g., Shaked and Shanthikumar 2007). To prove that  $\tilde{p}(\theta)$  is also FOSD-ordered, it is sufficient to show that  $\tilde{P}_k(\theta)$  is decreasing in  $\theta$ . For some  $\theta' > \theta$ ,

$$\begin{aligned} \tilde{P}_k(\theta') - \tilde{P}_k(\theta) &= \sum_{l=0}^k \left[ \frac{l p_l(\theta')}{\bar{k}(\theta')} - \frac{l p_l(\theta)}{\bar{k}(\theta)} \right] = \frac{1}{\bar{k}(\theta)\bar{k}(\theta')} \sum_{l=0}^k l [p_l(\theta')\bar{k}(\theta) - p_l(\theta)\bar{k}(\theta')] \\ &= \frac{1}{\bar{k}(\theta)\bar{k}(\theta')} \sum_{l=0}^k \sum_{l'=0}^n l l' [p_l(\theta') p_{l'}(\theta) - p_l(\theta) p_{l'}(\theta')] \\ &= \frac{1}{\bar{k}(\theta)\bar{k}(\theta')} \sum_{l=0}^k \sum_{l'=k+1}^n l l' [p_l(\theta') p_{l'}(\theta) - p_l(\theta) p_{l'}(\theta')] \leq 0. \end{aligned}$$

The terms with  $l' \leq k$  vanish due to symmetry, and the inequality on the last line follows directly from the ILR property of  $p(\theta)$ .  $\square$

**PROOF OF LEMMA 2.** (i) From (1),

$$\tilde{p}_k = \frac{kp_k}{\bar{k}} = \frac{ka_k\theta^k}{\sum_{k=1}^{\infty} ka_k\theta^k} = \frac{\tilde{a}_k\theta^k}{\tilde{A}(\theta)},$$

where  $\tilde{a}_k = ka_k$  and  $\tilde{A}(\theta) = \sum_{k=1}^{\infty} \tilde{a}_k\theta^k$ ; that is,  $\tilde{p}_k$  also has the PSD form.

(ii) Consider some  $\theta' > \theta$ . Then

$$\frac{p_k(\theta')}{p_k(\theta)} = \frac{A(\theta)}{A(\theta')} \left(\frac{\theta'}{\theta}\right)^k,$$

which is increasing in  $k$ .

(iii) The cmf of a PSD distribution (7) is  $P_k(\theta) = \sum_{l=0}^k a_l\theta^l / \sum_{l=0}^{\infty} a_l\theta^l$ , which gives

$$\begin{aligned} P'_k(\theta) &= \frac{1}{A(\theta)^2} \left[ \sum_{l=0}^k la_l\theta^{l-1} \sum_{l'=0}^{\infty} a_{l'}\theta^{l'} - \sum_{l=0}^k a_l\theta^l \sum_{l'=0}^{\infty} l'a_{l'}\theta^{l'-1} \right] \\ &= \frac{1}{A(\theta)^2} \sum_{l=0}^k \sum_{l'=0}^{\infty} a_la_{l'}\theta^{l+l'-1}(l-l') \\ &= \frac{1}{A(\theta)^2} \sum_{l=0}^k \sum_{l'=k+1}^{\infty} a_la_{l'}\theta^{l+l'-1}(l-l') \leq 0. \end{aligned} \tag{13}$$

The terms with  $l' \leq k$  vanish due to symmetry.

Using summation by parts,

$$G(z, \theta) = \sum_{k=0}^n p_k(\theta)z^k = P_n(\theta)z^n - \sum_{k=0}^{n-1} P_k(\theta)(z^{k+1} - z^k) = z^n + (1-z) \sum_{k=0}^{n-1} P_k(\theta)z^k,$$

which gives

$$G_{\theta}(z, \theta) = (1-z) \sum_{k=0}^{n-1} P'_k(\theta)z^k, \tag{14}$$

and the result for  $G_{\theta}(z, \theta)$  follows from (13).

(iv) We prove this part assuming part (v) holds and then prove part (v) directly. Consider some  $\theta' > \theta$ . From (14),

$$\rho(z, \theta, \theta') = \frac{G_{\theta}(z, \theta')}{G_{\theta}(z, \theta)} = \frac{\sum_{k=0}^{n-1} P'_k(\theta')z^k}{\sum_{k=0}^{n-1} P'_k(\theta)z^k}.$$

This gives, up to a positive multiplier,

$$\begin{aligned} \rho_z(z, \theta, \theta') &\propto \sum_{k=0}^{n-1} k P'_k(\theta') z^{k-1} \sum_{l=0}^{n-1} P'_l(\theta) z^l - \sum_{k=0}^{n-1} P'_k(\theta') z^k \sum_{l=0}^{n-1} l P'_l(\theta) z^{l-1} \\ &= \sum_{k=0}^{n-1} \sum_{l=0}^{n-1} P'_k(\theta') P'_l(\theta) z^{k+l-1} (k-l). \end{aligned}$$

The terms with  $k = l$  are zero. Separating the double sum into two parts and swapping the indices in the second part, we obtain

$$\begin{aligned} \rho_z(z, \theta, \theta') &\propto \sum_{k>l} P'_k(\theta') P'_l(\theta) z^{k+l-1} (k-l) + \sum_{k<l} P'_k(\theta') P'_l(\theta) z^{k+l-1} (k-l) \\ &= \sum_{k>l} [P'_k(\theta') P'_l(\theta) - P'_l(\theta') P'_k(\theta)] z^{k+l-1} (k-l) \geq 0, \end{aligned}$$

where the inequality follows because each term is positive due to part (v).

(v) Consider some  $\theta' > \theta$  and let  $\beta = \theta'/\theta > 1$ . For convenience, introduce the notation  $\alpha_{l'l} = a_l a_{l'} \theta^{l+l'-1} (l' - l)$ . Using (13),

$$s_k(\theta, \theta') = \frac{P'_k(\theta')}{P'_k(\theta)} = \frac{A(\theta)^2 N_k}{A(\theta')^2 D_k},$$

where

$$N_k = \sum_{l=0}^k \sum_{l' \geq k+1} \beta^{l+l'-1} \alpha_{l'l}, \quad D_k = \sum_{l=0}^k \sum_{l' \geq k+1} \alpha_{l'l}.$$

We need to show that  $N_k/D_k$  is increasing in  $k$  or, equivalently, that  $N_{k+1}D_k - N_kD_{k+1} \geq 0$ . Notice that  $N_{k+1}$  can be expressed through  $N_k$  as

$$N_{k+1} = N_k - \sum_{l=0}^k \beta^{l+k} \alpha_{l,k+1} + \sum_{l' \geq k+2} \beta^{l'+k} \alpha_{k+1,l'}.$$

Similarly,

$$D_{k+1} = D_k - \sum_{l=0}^k \alpha_{l,k+1} + \sum_{l' \geq k+2} \alpha_{k+1,l'}.$$

Therefore,

$$\begin{aligned} N_{k+1}D_k - N_kD_{k+1} &= \left( N_k - \sum_{l=0}^k \beta^{l+k} \alpha_{l,k+1} + \sum_{l' \geq k+2} \beta^{l'+k} \alpha_{k+1,l'} \right) D_k \\ &\quad - N_k \left( D_k - \sum_{l=0}^k \alpha_{l,k+1} + \sum_{l' \geq k+2} \alpha_{k+1,l'} \right) \end{aligned}$$

$$= \sum_{l=0}^k \alpha_{l,k+1} (N_k - \beta^{l+k} D_k) + \sum_{l' \geq k+2} \alpha_{k+1,l'} (\beta^{l'+k} D_k - N_k).$$

It can be shown that each of the two terms in the last line is nonnegative. We demonstrate it explicitly for the first term; for the second term, the derivation is similar:

$$\begin{aligned} & \sum_{l=0}^k \alpha_{l,k+1} (N_k - \beta^{l+k} D_k) \\ &= \sum_{l=0}^k \sum_{j=0}^k \sum_{l' \geq k+1} (\beta^{j+l'-1} \alpha_{jl'} \alpha_{l,k+1} - \beta^{l+k} \alpha_{jl'} \alpha_{l,k+1}) \\ &= \sum_{l=0}^k \sum_{j=0}^k \sum_{l' \geq k+1} (\beta^{l+l'-1} \alpha_{ll'} \alpha_{j,k+1} - \beta^{l+k} \alpha_{jl'} \alpha_{l,k+1}) \\ &\geq \sum_{l=0}^k \sum_{j=0}^k \sum_{l' \geq k+1} \beta^{l+k} (\alpha_{ll'} \alpha_{j,k+1} - \alpha_{jl'} \alpha_{l,k+1}) \\ &= \sum_{l=0}^k \sum_{j=0}^k \sum_{l' \geq k+1} \beta^{l+k} a_l a_{l'} a_j a_{k+1} \theta^{l+l'-1+j+k} [(l'-l)(k+1-j) - (l'-j)(k+1-l)] \\ &= \sum_{l=0}^k \sum_{j=0}^k \sum_{l' \geq k+1} \beta^{l+k} a_l a_{l'} a_j a_{k+1} \theta^{l+l'-1+j+k} (l'-k-1)(l-j) \\ &= \sum_{l' \geq k+1} \beta^k a_{l'} a_{k+1} \theta^{l'-1+k} (l'-k-1) \sum_{l=0}^k \sum_{j=0}^k \beta^l a_l a_j \theta^{l+j} (l-j). \end{aligned}$$

The sum over  $l$  and  $j$  can be rewritten as

$$\begin{aligned} \sum_{l=0}^k \sum_{j=0}^k \beta^l a_l a_j \theta^{l+j} (l-j) &= \sum_{l>j} \beta^l a_l a_j \theta^{l+j} (l-j) + \sum_{l<j} \beta^l a_l a_j \theta^{l+j} (l-j) \\ &= \sum_{l>j} (\beta^l - \beta^j) a_l a_j \theta^{l+j} (l-j) \geq 0. \end{aligned}$$

The inequality follows because  $\beta > 1$ . □

**PROOF OF PROPOSITION 1.** When  $f(x)$  is monotone, the result is trivial. Suppose  $f(x)$  is interior unimodal. Integrating representation (6) by parts, we obtain

$$B_{p(\theta)} = f(\bar{x}) \tilde{G}(1, \theta) - f(\underline{x}) \tilde{G}(0, \theta) - \int f'(x) \tilde{G}(F(x), \theta) dx.$$

From the definition of pgf  $\tilde{G}$ , we have  $\tilde{G}(1, \theta) = 1$ . The derivative, or first difference, of  $B_{p(\theta)}$  with respect to  $\theta$ , therefore, is

$$B'_{p(\theta)} = -f(\underline{x})\tilde{G}_\theta(0, \theta) - \int f'(x)\tilde{G}_\theta(F(x), \theta) dx.$$

To show that  $B_{p(\theta)}$  is unimodal, it is sufficient to show that  $B'_{p(\theta)}$  is single-crossing  $+-$ ; that is, if  $B'_{p(\theta)} < 0$  for some  $\theta$ , then  $B'_{p(\theta')} \leq 0$  for all  $\theta' > \theta$ .

Suppose  $B'_{p(\theta)} < 0$  and consider some  $\theta' > \theta$ . Function  $f'(x)$  is single-crossing  $+-$ . Let  $\hat{x} \in \text{int}(\mathcal{X})$  denote a mode of  $f(x)$  such that  $f'(x) \geq (\leq) 0$  for  $x \leq (\geq) \hat{x}$ . Furthermore, let  $\tilde{\rho}(z, \theta, \theta') = \tilde{G}_\theta(z, \theta')/\tilde{G}_\theta(z, \theta)$ . Splitting the integral, rewrite  $B'_{p(\theta')}$  as

$$\begin{aligned} B'_{p(\theta')} &= -f(\underline{x})\tilde{G}_\theta(0, \theta') - \int_{\underline{x}}^{\hat{x}} f'(x)\tilde{G}_\theta(F(x), \theta') dx - \int_{\hat{x}}^{\bar{x}} f'(x)\tilde{G}_\theta(F(x), \theta') dx \\ &= -f(\underline{x})\tilde{\rho}(0, \theta, \theta')\tilde{G}_\theta(0, \theta) - \int_{\underline{x}}^{\hat{x}} f'(x)\tilde{\rho}(F(x), \theta, \theta')\tilde{G}_\theta(F(x), \theta) dx \\ &\quad - \int_{\hat{x}}^{\bar{x}} f'(x)\tilde{\rho}(F(x), \theta, \theta')\tilde{G}_\theta(F(x), \theta) dx \\ &\leq -f(\underline{x})\tilde{\rho}(F(\hat{x}), \theta, \theta')\tilde{G}_\theta(0, \theta) - \tilde{\rho}(F(\hat{x}), \theta, \theta') \int_{\underline{x}}^{\hat{x}} f'(x)\tilde{G}_\theta(F(x), \theta) dx \\ &\quad - \tilde{\rho}(F(\hat{x}), \theta, \theta') \int_{\hat{x}}^{\bar{x}} f'(x)\tilde{G}_\theta(F(x), \theta) dx \\ &= \tilde{\rho}(F(\hat{x}), \theta, \theta') \left[ -f(\underline{x})\tilde{G}_\theta(0, \theta) - \int f'(x)\tilde{G}_\theta(F(x), \theta) dx \right] \\ &= \tilde{\rho}(F(\hat{x}), \theta, \theta') B'_{p(\theta)} \leq 0. \end{aligned}$$

The first inequality follows because  $\tilde{\rho}(z, \theta, \theta')$  is increasing in  $z$ , due to the log-supermodularity condition. □

**PROOF OF THE “ONLY IF” PART OF COROLLARY 4(III).** It is sufficient to show that if  $b_k$  is independent of  $k$  for  $k \geq 2$ , then  $f(x)$  is constant. Let  $\Delta^l b_k$  denote the  $l$ th difference of  $b_k$ , defined recursively as  $\Delta^{l+1} b_k = \Delta^l b_{k+1} - \Delta^l b_k$ , with  $\Delta^1 b_k = b_{k+1} - b_k$ . The fact that  $b_k$  is constant implies that  $\Delta^l b_k = 0$  for all  $k \geq 2, l \geq 1$ . Note that  $\Delta^l z^{k-1} = (-1)^l z^{k-1} (1-z)^l$  for  $z \in [0, 1]$ ; therefore,

$$\Delta^l b_k = (-1)^l \int f(x) d[F(x)^{k-1} (1-F(x))^l] = 0, \quad k \geq 2, l \geq 1. \tag{15}$$

Fix some  $k, l \geq 1$ . Then

$$\sum_{j=k}^{k+l} (-1)^{k+l-j} \binom{k+l}{j} \Delta^{k+l-j} b_{j+1}$$

$$= \sum_{j=k}^{k+l} \binom{k+l}{j} \int f(x) d[F(x)^j (1 - F(x))^{k+l-j}] = \int f(x) dF_{(k:k+l)}(x),$$

where  $F_{(k:k+l)}(x)$  is the cdf of order statistic  $X_{(k:k+l)}$ . In the sum in the first line of the equation above, all terms except the one with  $j = k + l$  are zero due to (15); therefore,

$$A_{kl} = \int f(x) dF_{(k:k+l)}(x) = b_{k+l+1} = b_2, \quad k, l \geq 1.$$

Suppose  $f(\tilde{x}_1) \neq f(\tilde{x}_2)$  for some points  $\tilde{x}_1, \tilde{x}_2 \in \mathcal{X}$ . Then, by continuity of  $f(\cdot)$ , there exist points  $x_1, x_2 \in \text{int}(\mathcal{X})$  such that  $f(x_1) \neq f(x_2)$ ,  $f(x_1) > 0$ ,  $f(x_2) > 0$ , and  $F(x_1), F(x_2)$  are rational numbers. First, let  $k, l \rightarrow \infty$  so that  $k/(k+l) = F(x_1)$ . Then  $\sqrt{k+l}(X_{(k:k+l)} - x_1)$  converges in distribution to  $N(0, F(x_1)(1 - F(x_1))/f(x_1)^2)$ , which implies  $A_{kl}$  converges to  $f(x_1)$ . Second, let  $k, l \rightarrow \infty$  so that  $k/(k+l) = F(x_2)$ . Then, similarly,  $A_{kl}$  converges to  $f(x_2)$ . However,  $A_{kl}$  is a constant independent of  $k, l$ —a contradiction.  $\square$

**PROOF OF PROPOSITION 2.** Using (3), define

$$\Delta b_{k+3} = b_{k+3} - b_{k+2} = \int [(k+2)F(x)^{k+1} - (k+1)F(x)^k] f(x) dF(x), \quad k \geq 0.$$

Integrating by parts, we obtain

$$\Delta b_{k+3} = \int f(x) d(F(x)^{k+2} - F(x)^{k+1}) = \int F(x)^{k+1} (1 - F(x)) f'(x) dx. \quad (16)$$

The symmetry of  $f(x)$  around its mean  $\mu$  implies  $f(x) = f(2\mu - x)$  and  $F(x) = 1 - F(2\mu - x)$  for all  $x \in \mathcal{X}$ .

(i) From (3),  $b_2 = \int f(x) dF(x)$  and

$$\begin{aligned} b_3 &= 2 \int F(x) f(x) dF(x) = 2 \int F(2\mu - x) f(2\mu - x) dF(2\mu - x) \\ &= 2 \int (1 - F(x)) f(x) dF(x) = 2b_2 - b_3, \end{aligned}$$

which implies  $b_2 = b_3$ .

(ii) From (16), via the change of variable  $x \rightarrow 2\mu - x$ , due to  $f'(2\mu - x) = -f'(x)$ ,

$$\begin{aligned} \Delta b_{k+3} &= \int_{\underline{x}}^{\mu} F(x)^{k+1} (1 - F(x)) f'(x) dx + \int_{\mu}^{\bar{x}} F(x)^{k+1} (1 - F(x)) f'(x) dx \\ &= \int_{\underline{x}}^{\mu} F(x)^{k+1} (1 - F(x)) f'(x) dx - \int_{\underline{x}}^{\mu} (1 - F(x))^{k+1} F(x) f'(x) dx \\ &= - \int_{\underline{x}}^{\mu} F(x) (1 - F(x)) [(1 - F(x))^k - F(x)^k] f'(x) dx \leq 0, \end{aligned}$$

with equality only for  $k = 0$  or when  $f(x)$  is constant. Thus,  $b_k$  is decreasing for  $k \geq 2$  and the result follows from (4).  $\square$

**PROOF OF PROPOSITION 3.** We prove part (i); the derivation for part (ii) is similar.

(i) Suppose  $f(x)$  is IFR and  $c(e)$  is more convex than quadratic. From representation (11),  $kb_k$  is increasing in  $k$ , which implies  $B(\theta) = \sum_{k=0}^n p(\theta)kb_k$  is increasing in  $\theta$ . From (4),  $B_{p(\theta)} = B(\theta)/\bar{k}(\theta)$ .

By definition,  $E_{p(\theta)}^* = \bar{k}(\theta)e_{p(\theta)}^*$ . Differentiating with respect to  $\theta$ , we obtain

$$(E_{p(\theta)}^*)' = \bar{k}'(\theta)e_{p(\theta)}^* + \bar{k}(\theta)(e_{p(\theta)}^*)'$$

Differentiating the first-order condition  $c'(e_{p(\theta)}^*) = B_{p(\theta)}$  with respect to  $\theta$ , we obtain  $(e_{p(\theta)}^*)' = B'_{p(\theta)}/c''(e_{p(\theta)}^*)$ , where  $B'_{p(\theta)} = B'(\theta)/\bar{k}(\theta) - B(\theta)\bar{k}'(\theta)/\bar{k}(\theta)^2$ . This gives

$$\begin{aligned} (E_{p(\theta)}^*)' &= \bar{k}'(\theta)e_{p(\theta)}^* + \frac{\bar{k}(\theta)}{c''(e_{p(\theta)}^*)} \left[ \frac{B'(\theta)}{\bar{k}(\theta)} - \frac{B(\theta)\bar{k}'(\theta)}{\bar{k}(\theta)^2} \right] \\ &= \frac{B'(\theta)}{c''(e_{p(\theta)}^*)} + \bar{k}'(\theta) \left[ e_{p(\theta)}^* - \frac{c'(e_{p(\theta)}^*)}{c''(e_{p(\theta)}^*)} \right]. \end{aligned}$$

It is sufficient to show that the expression in square brackets is positive. Since  $c(\sqrt{t})$  is convex in  $t$ , we have

$$\frac{d^2}{dt^2}c(\sqrt{t}) = \frac{d}{dt} \left[ \frac{c'(\sqrt{t})}{2\sqrt{t}} \right] = \frac{c''(\sqrt{t})\sqrt{t} - c'(\sqrt{t})}{4t^{3/2}} \geq 0;$$

therefore,  $c''(e)e \geq c'(e)$ . □

**PROOF OF PROPOSITION 4.** We first show that  $E_k^*$  is unimodal. Following the same argument as in the proof of Proposition 1, it is sufficient to show that  $-F_{(k-1;k)}(x) = kF(x)^{k-1} - (k-1)F(x)^k$  is log supermodular. Consider some  $l > k \geq 2$  and let  $z = F(x)$ . We show that the ratio  $[lz^{l-1} - (l-1)z^l]/[kz^{k-1} - (k-1)z^k]$  is increasing in  $z$ . The derivative of the ratio with respect to  $z$  is

$$\begin{aligned} &\frac{1}{[kz^{k-1} - (k-1)z^k]^2} [(l(l-1)z^{l-2} - l(l-1)z^{l-1})(kz^{k-1} - (k-1)z^k) \\ &\quad - (k(k-1)z^{k-2} - k(k-1)z^{k-1})(lz^{l-1} - (l-1)z^k)] \\ &= \frac{z^{k+l-3}(1-z)}{[kz^{k-1} - (k-1)z^k]^2} [lk(l-1) - l(l-1)(k-1)z - lk(k-1) + k(l-1)(k-1)z] \\ &= \frac{z^{k+l-3}(1-z)(l-k)[lk - (l-1)(k-1)z]}{[kz^{k-1} - (k-1)z^k]^2} \geq 0. \end{aligned}$$

Thus,  $E_k^*$  is unimodal for  $k \geq 2$ ; therefore, it is also unimodal for all  $k \geq 0$  because  $E_0^* = E_1^* = 0$ . Using summation by parts, we can write

$$E_{p(\theta)}^* = \sum_{k=0}^n p_k(\theta)E_k^* = P_n(\theta)E_n^* - \sum_{k=0}^{n-1} P_k(\theta)\Delta E_k^*,$$

where  $\Delta E_k^* = E_{k+1}^* - E_k^*$ , the first difference of  $E_k^*$ , is single-crossing  $+ -$ . Note that  $P_n(\theta) = 1$  is independent of  $\theta$ ; hence, the derivative, or first difference, of  $E_{p(\theta)}^*$  with respect to  $\theta$  is

$$E_{p(\theta)}^{*'} = - \sum_{k=0}^{n-1} P_k'(\theta) \Delta E_k^*,$$

where  $P_k'(\theta)$  is the derivative, or the first difference, of the cmf.

We now show that  $E_{p(\theta)}^{*'}$  is single-crossing  $+ -$ . Let  $\hat{k}$  denote a mode of  $E_k^*$  such that  $\Delta E_k^* \geq (\leq) 0$  for  $k \leq (\geq) \hat{k}$ . Suppose  $E_{p(\theta)}^{*' < 0$  and consider some  $\theta' > \theta$ . Let  $s_k(\theta, \theta') = P_k'(\theta')/P_k'(\theta)$ . Separating the sum, we obtain

$$\begin{aligned} E_{p(\theta')}^{*' &= - \sum_{k \leq \hat{k}} P_k'(\theta') \Delta E_k^* - \sum_{k > \hat{k}} P_k'(\theta') \Delta E_k^* \\ &= - \sum_{k \leq \hat{k}} s_k(\theta, \theta') P_k'(\theta) \Delta E_k^* - \sum_{k > \hat{k}} s_k(\theta, \theta') P_k'(\theta) \Delta E_k^* \\ &\leq -s_{\hat{k}}(\theta, \theta') \sum_{k \leq \hat{k}} P_k'(\theta) \Delta E_k^* - s_{\hat{k}}(\theta, \theta') \sum_{k > \hat{k}} P_k'(\theta) \Delta E_k^* = s_{\hat{k}}(\theta, \theta') E_{p(\theta)}^{*' \leq 0. \end{aligned}$$

The first inequality follows from condition (ii) whereby  $s_k(\theta, \theta')$  is increasing in  $k$ . Thus,  $E_{p(\theta)}^{*' is single-crossing  $+ -$  and, hence,  $E_{p(\theta)}^*$  is unimodal.  $\square$$

**PROOF OF PROPOSITION 5.** First, we prove that if  $f(x)$  is log concave (log convex), then  $kb_k$  is concave (convex) in  $k$  for  $k \geq 2$ . Integrating (3) by parts, we obtain

$$\begin{aligned} kb_k &= k(k-1) \int F(x)^{k-2} f(x) dF(x) = k \left[ f(x)F(x)^{k-1} \Big|_{\underline{x}}^{\bar{x}} - \int F(x)^{k-1} f'(x) dx \right] \\ &= kf(\bar{x}) - k \int F(x)^{k-1} f'(x) dx. \end{aligned}$$

This gives the second difference:

$$\begin{aligned} \Delta^2(kb_k) &= (k+2)b_{k+2} - 2(k+1)b_{k+1} + kb_k \\ &= \int f'(x)F(x)^{k-1} [-(k+2)F(x)^2 + 2(k+1)F(x) - k] dx \\ &= \int f'(x)F(x)^{k-1} (1-F(x)) [(k+2)F(x) - k] dx. \end{aligned}$$

Suppose  $f(x)$  is log concave (when  $f(x)$  is log convex, the argument is similar). Then  $f'(x)/f(x)$  is decreasing. Let  $\hat{x} \in \mathcal{X}$  denote a point such that  $F(\hat{x}) = k/(k+2)$ . Splitting the integral, we obtain

$$\Delta^2(kb_k) = \int_{\underline{x}}^{\hat{x}} \frac{f'(x)}{f(x)} F(x)^{k-1} (1-F(x)) [(k+2)F(x) - k] dF(x)$$



$$\begin{aligned}
 & + \int_{\hat{x}}^{\bar{x}} \frac{f'(x)}{f(x)} F(x)^{k-1} (1 - F(x)) [(k + 2)F(x) - k] dF(x) \\
 \leq & \frac{f'(\hat{x})}{f(\hat{x})} \int_{\hat{x}}^{\hat{x}} F(x)^{k-1} (1 - F(x)) [(k + 2)F(x) - k] dF(x) \\
 & + \frac{f'(\hat{x})}{f(\hat{x})} \int_{\hat{x}}^{\bar{x}} F(x)^{k-1} (1 - F(x)) [(k + 2)F(x) - k] dF(x) \\
 = & \frac{f'(\hat{x})}{f(\hat{x})} \int F(x)^{k-1} (1 - F(x)) [(k + 2)F(x) - k] dF(x).
 \end{aligned}$$

The inequality follows because  $f'(x)/f(x)$  is decreasing and the integrand is negative (positive) for  $x \leq (\geq) \hat{x}$ . Moreover, the inequality is strict when  $f'(x)/f(x)$  is strictly decreasing. The last integral is

$$\begin{aligned}
 \int_0^1 z^{k-1} [-(k + 2)z^2 + 2(k + 1)z - k] dz & = -(k + 2) \int_0^1 z^{k+1} dz + 2(k + 1) \int_0^1 z^k dz \\
 & \quad - k \int_0^1 z^{k-1} dz = -1 + 2 - 1 = 0.
 \end{aligned}$$

Thus,  $\Delta^2(kb_k) \leq 0$ , i.e.,  $kb_k$  is concave.

Second, we compare  $E_p^* = \bar{k}e_p^*$  to  $E_{p'}^* = \bar{k}e_{p'}^*$ . This is equivalent to comparing  $e_p^*$  and  $e_{p'}^*$ , i.e., it is sufficient to compare  $B_p$  to  $B_{p'}$ . Under the assumption  $p_0 = p_1 = 0$ , (4) can be written as  $B_p = (1/\bar{k})\mathbb{E}_p(Kb_K)$ . Therefore, we are comparing  $\mathbb{E}_p(Kb_K)$  to  $\mathbb{E}_{p'}(Kb_K)$ . The result then follows from the definition of second-order stochastic dominance.  $\square$

**PROOF OF PROPOSITION 6.** Without disclosure, the expected aggregate effort in the tournament is  $E_p^* = \bar{k}e_p^* = \bar{k}c'^{-1}(B_p)$ , where, from (4),  $B_p = \mathbb{E}(b_{\tilde{K}})$ . With disclosure, the expected aggregate effort is  $\mathbb{E}(Kc'^{-1}(b_K))$ , which can be rewritten as

$$\mathbb{E}(Kc'^{-1}(b_K)) = \sum_{k=1}^n p_k k c'^{-1}(b_k) = \bar{k} \sum_{k=1}^n \tilde{p}_k c'^{-1}(b_k) = \bar{k} \mathbb{E}(c'^{-1}(b_{\tilde{K}})).$$

Thus, comparing  $E_p^*$  and  $\mathbb{E}(Kc'^{-1}(b_K))$  is equivalent to comparing  $c'^{-1}(\mathbb{E}(b_{\tilde{K}}))$  and  $\mathbb{E}(c'^{-1}(b_{\tilde{K}}))$ .

It follows that when  $b_k$  is not constant in the support of  $\tilde{K}$ , and  $c'^{-1}$  is concave (convex) and nonlinear for at least some distinct values of  $b_k$ , disclosure is not optimal (optimal). The concavity (convexity) of  $c'^{-1}$  is equivalent to the convexity (concavity) of  $c'$ , i.e., to the condition  $c''' \geq (\leq) 0$ .  $\square$

**PROOF OF PROPOSITION 7.** We start by showing that condition (iii) guarantees the existence of a unique  $e_p^*$  solving (4). Recall that  $c'(\cdot)$  is strictly increasing and  $c'(0) = 0$ . It is, therefore, sufficient to show that  $c'(\bar{e}) > B_p$ . Representation (9) gives  $b_k \leq f_m$ ; therefore,  $B_p = \mathbb{E}(b_{\tilde{K}}) \leq f_m$ . Condition (iii) implies  $c'^{-1}(f_m) < c^{-1}(1/\mathbb{E}(K|K \geq 1)) \leq c^{-1}(1)$ ; therefore,  $f_m < c'(c^{-1}(1)) = c'(\bar{e})$ , which produces the desired result.

Next we use conditions (i) and (ii) to show that payoff function (2) is strictly concave in  $e_i$ . Let  $R(e) = \sum_{k=1}^n \tilde{p}_k \int F(e - e^* + x)^{k-1} dF(x)$  and suppose  $c''(e) \geq c_0 > 0$  on  $[0, \bar{e}]$ .

We need to show that  $R''(e) < c_0$ . For convenience, let  $\Delta e = e - e^*$ . Differentiating  $R(e)$  once, obtain

$$R'(e) = \sum_{k=1}^n \tilde{p}_k(k-1) \int_{\underline{x}}^{\bar{x}} F(\Delta e + x)^{k-2} f(\Delta e + x) dF(x). \tag{17}$$

We need to evaluate the second derivative  $R''(e)$ . Note that the integrand in (17) is nonzero only for  $x \in [\max\{\underline{x}, \underline{x} - \Delta e\}, \min\{\bar{x}, \bar{x} - \Delta e\}]$ , and is continuous and piecewise differentiable in this interval under our assumptions; however, the integrand may be discontinuous on  $\mathcal{X}$ . We, therefore, consider the cases when  $\Delta e \geq 0$  and  $\Delta e < 0$  separately.

(i) Suppose that  $\Delta e \geq 0$ . Then the interval of integration in (17) is  $[\underline{x}, \bar{x} - \Delta e]$  and

$$\begin{aligned} R''(e) &= \sum_{k=1}^n \tilde{p}_k(k-1) \left[ (k-2) \int F(\Delta e + x)^{k-3} f(\Delta e + x)^2 dF(x) \right. \\ &\quad \left. + \int F(\Delta e + x)^{k-2} f'(\Delta e + x) dF(x) - f(\bar{x})f(\bar{x} - \Delta e) \right] \\ &\leq \sum_{k=1}^n \tilde{p}_k(k-1) [(k-2)f_m^2 + f'_{\max}] \leq \frac{\mathbb{E}(K^3)}{\bar{k}} f_m^2 + \frac{\mathbb{E}(K^2)}{\bar{k}} f'_{\max}. \end{aligned}$$

(ii) Suppose that  $\Delta e < 0$ . Then the interval of integration in (17) is  $[\underline{x} - \Delta e, \bar{x}]$  and

$$\begin{aligned} R''(e) &= \sum_{k=1}^n \tilde{p}_k(k-1) \left[ (k-2) \int_U F(\Delta e + x)^{k-3} f(\Delta e + x)^2 dF(x) \right. \\ &\quad \left. + \int_U F(\Delta e + x)^{k-2} f'(\Delta e + x) dF(x) + F(\underline{x})^{k-2} f(\underline{x})f(\underline{x} - \Delta e) \right] \\ &\leq \sum_{k=1}^n \tilde{p}_k(k-1) [(k-1)f_m^2 + f'_{\max}] = \frac{\mathbb{E}[K(K-1)^2]}{\bar{k}} f_m^2 + \frac{\mathbb{E}[K(K-1)]}{\bar{k}} f'_{\max}. \end{aligned}$$

Thus,  $D_+$  given by (12) is a bound such that  $c_0 > D_+$  ensures  $R''(e) - c_0 < 0$ .

An alternative bound on  $R''(e)$  can be obtained by transforming (17) via a change of variable  $x + \Delta e \rightarrow x$  into the form

$$R'(e) = \sum_{k=1}^n \tilde{p}_k(k-1) \int_{\underline{x}}^{\bar{x}} F(x)^{k-2} f(x - \Delta e) dF(x). \tag{18}$$

In this case the integrand is nonzero, continuous, and piecewise differentiable for  $x \in [\max\{\underline{x}, \underline{x} + \Delta e\}, \min\{\bar{x}, \bar{x} + \Delta e\}]$ . We consider the same two cases as above.

(i) For  $\Delta e \geq 0$ , the interval of integration in (18) is  $[\underline{x} + \Delta e, \bar{x}]$  and

$$\begin{aligned} R''(e) &= \sum_{k=1}^n \tilde{p}_k(k-1) \left[ - \int F(x)^{k-2} f'(x - \Delta e) dF(x) - F(\underline{x} + \Delta e)^{k-2} f(\underline{x})f(\underline{x} + \Delta e) \right] \\ &\leq - \sum_{k=1}^n \tilde{p}_k(k-1) f'_{\min} = - \frac{\mathbb{E}[K(K-1)]}{\bar{k}} f'_{\min}. \end{aligned}$$

(ii) For  $\Delta e < 0$ , the interval of integration in (18) is  $[\underline{x}, \bar{x} + \Delta e]$  and

$$R''(e) = \sum_{k=1}^n \tilde{p}_k (k-1) \left[ - \int F(x)^{k-2} f'(x - \Delta e) dF(x) + F(\bar{x} + \Delta e)^{k-2} f(\bar{x}) f(\bar{x} + \Delta e) \right]$$

$$\leq \sum_{k=1}^n \tilde{p}_k (k-1) (f_m^2 - f_{\min}') = \frac{\mathbb{E}[K(K-1)]}{\bar{k}} (f_m^2 - f_{\min}')$$

This produces bound  $D_-$  in (12) such that  $c_0 > D_-$  implies  $R''(e) - c_0 < 0$ . Since both bounds are valid, condition  $c_0 > \min\{D_+, D_-\}$  is sufficient.

Finally, we check the participation constraint. From (2) and (1), the equilibrium pay-off is

$$\pi^{(i)}(e_p^*, e_p^*) = \sum_{k=1}^n \tilde{p}_k \int F(x)^{k-1} dF(x) - c(e_p^*) = \frac{1}{\bar{k}} \sum_{k=1}^n p_k - c(e_p^*) = \frac{1}{\mathbb{E}(K|K \geq 1)} - c(e_p^*),$$

where  $\mathbb{E}(K|K \geq 1) = \sum_{k=1}^n k p_k / \sum_{k=1}^n p_k$  is the expected number of players conditional on there being at least one player in the tournament. Using the bound  $B_p \leq f_m$  derived above and condition (iii), we obtain

$$\mathbb{E}(K|K \geq 1) c(e_p^*) = \mathbb{E}(K|K \geq 1) c(c'^{-1}(B_p)) \leq \mathbb{E}(K|K \geq 1) c(c'^{-1}(f_m)) < 1,$$

which gives  $\pi^{(i)}(e_p^*, e_p^*) > 0$ . □

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Co-editor Thomas Mariotti handled this manuscript.

Manuscript received 18 June, 2019; final version accepted 21 January, 2020; available online 29 January, 2020.