

# Simple bets to elicit private signals

AURÉLIEN BAILLON

Erasmus School of Economics, Erasmus University Rotterdam

YAN XU

Department of Economics, University of Vienna

This paper introduces two simple betting mechanisms—top-flop and threshold betting—to elicit unverifiable information from crowds. Agents are offered bets on the rating of an item about which they received a private signal versus that of a random item. We characterize conditions for the chosen bet to reveal the agents' private signal even if the underlying ratings are biased. We further provide microeconomic foundations of the ratings, which are endogenously determined by the actions of other agents in a game setting. Our mechanisms relax standard assumptions of the literature, such as common prior, and homogeneous and risk neutral agents.

**KEYWORDS.** Bets, private signals, Bayesian game, elicitation.

**JEL CLASSIFICATION.** C9, D8.

## 1. INTRODUCTION

Suppose the manager of a customer-care call center wants to assess her employees through some customer satisfaction measures. At the end of each call, she invites customers to take a one question survey about whether they are satisfied with the services. She can reward participation with a small prize (voucher or fidelity points), but this is not enough. She would also like to have the customers think carefully about the question and provide truthful answers. If she were able to verify the answer, incentivizing truth-telling would be easy. However, only the customers themselves know whether they are actually satisfied or not, making it difficult to align rewards with truth-telling. We propose the following solution. The manager can reformulate the survey question and ask customers to bet whether the employee they talked to has a higher or lower satisfaction rate than another randomly selected employee from the call center. Customers who win the bet receive the prize.

We call the aforementioned method top-flop betting and show that it provides incentives for agents to truthfully reveal private information. We consider two cases. In the first case, the bets are defined on a preexisting satisfaction rating, which may be

---

Aurélien Baillon: [baillon@ese.eur.nl](mailto:baillon@ese.eur.nl)

Yan Xu: [yan.xu@univie.ac.at](mailto:yan.xu@univie.ac.at)

This research was made possible by European Research Council Starting Grant 638408 Bayesian Markets. We are grateful to Drazen Prelec, Peter Wakker, Jens Witowski, and two anonymous reviewers for their many comments that improved and clarified the paper.

biased as long as it is informative enough (as specified later). In the second case, the rating is a function of the bets chosen by other customers. Another method introduced in this paper, which we call threshold betting, induces truth-telling by making customers bet on which employee (the one they talked to or a random one) is more likely to get a satisfaction rate exceeding a given threshold.

It is easy to implement top-flop and threshold betting in many settings in which people receive private binary signals, in the form of tastes or experiences. An application, which we use as a leading example, is to elicit whether people liked or disliked a movie after previewing it. Previewers are offered bets on some future performance measures of the movie, like the Rotten Tomatoes rating or the number of tickets sold, versus those of another movie of the same type. To put it simply, our mechanisms ask people to bet on the *relative* performance of the previewed movie. Doing so alleviates the concern of Keynesian beauty contest type herding, when agents act on what they think others will think, rather than on their own signals. With a betting mechanism on absolute performance, as in a prediction market, agents' decisions are jointly determined by their private signals and their prior expectations about movie performance. Betting on relative performance, as in our mechanisms, disentangles the private signal from prior expectations, as we will show.

This paper introduces simple betting mechanisms (top-flop betting and threshold betting) and determines sufficient conditions for the chosen bets to reveal private signals. The first part of the paper considers a setting where a single agent receives a signal about one item and bets on its rating relative to that of another item belonging to a collection of similar items. In this setting, we assume that the ratings are exogenous random variables. There are two key conditions for the agent to reveal his signal through his betting behavior. First, the rating of an item must be more informative about the signals related to that item than the ratings of other items are. For instance, learning that the previewed movie grossed more than \$500M on its first weekend is more informative about the probability to like that specific movie than is learning that another movie exceeded the same milestone. Second, the agent has the same prior for all items of the collection. That is, the agent has no reason to prefer one movie over the other *ex ante*. Our results do not require the agent to be risk-neutral (or even a risk-averse expected-utility maximizer) but simply to choose the bet giving a higher chance to win. Hence, our results are valid for any decision model satisfying first-order stochastic dominance.

In the second part of the paper, we consider a game setting with at least four agents and provide a theoretical foundation for the rating. For a given agent, the rating for an item in the collection is determined by betting choices of other agents. Similarly to the single-agent case, each agent in a betting game receives a signal about one item in the collection. We again establish sufficient conditions for agents to reveal their signals. Specifically, we do not require that they fully agree on how signals are generated and how signals of any two agents are related. Agents may think they all have a different prior probability to like a given movie. They may even disagree about what these probabilities are. They do agree that the signals of two agents are more positively correlated when the signals are for the same item than for different items. However, they may disagree on the exact degree of correlation. The results we obtain are partial implementation results. We

establish that agents revealing their signal is a Nash equilibrium, but other equilibria are not excluded.

Several methods have been proposed to reveal unverifiable signals in survey settings (Prelec 2004, Witkowski and Parkes 2012b, Radanovic and Faltings 2013, Baillon 2017, Cvitanić et al. 2019). They provide truth-telling incentives by asking each agent two questions regarding a single item. One of the questions is directly about the signal and the other is about predicting other agents' answers. These methods are based on a common-prior assumption, requiring that agents differ only in the signal they received. With these methods, truthful signal reporting is a Bayesian Nash equilibrium when agents are risk-neutral. By using more than one item, we can relax the common-prior assumption and replace it with an assumption about how the items are related. In other words, in our model, priors may differ across agents, but have to agree across items.

Witkowski and Parkes (2012a) also introduced a method that relaxed the common-prior assumption, but it required eliciting priors before agents receive their signals. We do not require such additional elicitation. In that sense, our mechanism is *minimal*, as defined by Witkowski and Parkes (2013). The latter paper proposed a minimal mechanism that approximates beliefs with the empirical distribution of signals and delays payment until the distribution is accurate enough. We do not need such delays. Our approach also allows us to use a payment rule that is simpler than the aforementioned mechanisms and is robust to risk aversion, certainty effects, and other behavioral phenomena. Finally, the game-theoretic version of our mechanisms is based on assumptions that are close to those of Dasgupta and Ghosh (2013) and Shnayder et al. (2016). These authors also use cross-item correlations to incentivize truthful signal reporting (including nonbinary signals for Shnayder et al. 2016), but they require that all agents get signals for at least two items. The literature is further discussed in Section 4.

We conclude our paper with examples of practical implementations and potential applications of our methods. We show how threshold betting can be implemented as a financial derivative (an option) of prediction markets. We also explain how our simple bets can be used to assess whether people are willing to pay a given amount for product features that are yet to be developed.

## 2. BETTING ON EXOGENOUS RATINGS

### 2.1 Signals, ratings, and beliefs

We first consider a setting of a single agent (“he”). There is a *collection of items*  $\mathcal{K} \equiv \{1, \dots, K\}$  with  $K \geq 2$ . For one<sup>1</sup> fixed  $l \in \mathcal{K}$ , the agent receives a private signal, modeled as a realization  $t \in \mathcal{T} = \{0, 1\}$  of a random variable  $T$ . A *center* (“she”) wishes to elicit  $t$ . For instance,  $\mathcal{K}$  is a collection of movies, the agent watches movie  $l$ , and the center wants to know whether he liked it ( $t = 1$ ) or not ( $t = 0$ ). Each item  $k \in \mathcal{K}$  has a rating that reflects its quality and takes values from  $\mathcal{S}$ , a countable subset of the reals. The ratings

<sup>1</sup>We assume that if the agent receives signals about other items, the corresponding items are removed from the collection and that the assumptions introduced below hold conditional on the additional signals.

are unknown to the agent and to the center when the agent receives  $t$ . Furthermore, neither the agent nor the center can influence the ratings. Hence, ratings are modeled as bounded<sup>2</sup> random variables  $Y_k$  with generic realization  $y_k \in \mathcal{S}$ .

We assume that all the random variables (ratings and signals) are defined on the same probability space  $(\Omega, \mathcal{F}, P)$ . By Kolmogoroff (1933), this can always be assumed. For simplicity, we avoid measure-theoretic complications and assume that  $\Omega$  is countable, that  $\mathcal{F}$  is the sigma algebra of all subsets of  $\Omega$  (called *events*), and that  $P$  is countably additive.<sup>3</sup> The random variables (and  $P$ ) need not describe some objective processes, but rather the agent's beliefs. His prior probability of getting signal 1 is  $P(t = 1)$  and  $H_k$  denotes the distribution function of his prior about the rating.

**ASSUMPTION 1 (Identical prior).** *For any  $k \in \mathcal{K} \setminus \{l\}$ ,  $Y_k$  and  $Y_l$  are identically distributed, with  $H_k = H_l$ .*

Let  $H$  ( $\equiv H_l$ ) be the prior, identical for all items, as defined in Assumption 1. Assumption 1 means that the agent has the same expectations about the items in the collection before he receives a signal about item  $l$ . In practice, it requires that items are similar. In the movie example, if the rating is a performance measure such as reviews or gross revenue, the collection should not mix blockbusters with independent movies because the agent may have very different expectations of the ratings for the two categories. Dasgupta and Ghosh (2013) and Shnayder et al. (2016) argued for the identical prior assumption when the agent is ignorant about the collection and items are randomly assigned. They typically considered agents completing multiple tasks that are crowd-sourced, such as image labeling, peer assessment in online courses, or reporting features of hotels and restaurants.

A subset of the rating space, useful for what follows, is  $\mathcal{S}' = \{y \in \mathcal{S} : 0 < H(y) < 1\}$ . It excludes all ratings that are so low or so high that the agent believes they will never occur. It also excludes the maximum rating level the agent believes may occur (the smallest  $y$  such that  $H(y) = 1$ ).<sup>4</sup> We consider the nontrivial case where the agent believes that more than one rating level may occur, i.e.,  $\mathcal{S}'$  not empty.

**ASSUMPTION 2 (Comparative informativeness).** *For all  $k \in \mathcal{K} \setminus \{l\}$  and  $y \in \mathcal{S}$ ,  $P(t = 1 | Y_l > y) > P(t = 1 | Y_k > y)$ .*

In the mechanism design literature, private signals are linked to states of nature by a signal technology. Here, the possible ratings play the role of the states of nature. The signal technology is (believed by the agent to be) such that the rating of item  $l$  is more

<sup>2</sup>A real-valued random variable  $Y_k = Y_k(\omega)$  defined on the probability space  $(\Omega, \mathcal{F}, \mathbb{P})$  is bounded if there exists a constant  $M$  such that  $|Y_k(\omega)| \leq M$  for all  $\omega \in \Omega$ .

<sup>3</sup>For instance,  $\Omega$  may be the Cartesian product of the rating space and the signal space,  $\Omega = (\prod_{k \in \mathcal{K}} \mathcal{S}) \times \mathcal{T}$ .

<sup>4</sup>The subset  $\mathcal{S}'$  does not coincide with the support of the distribution. For instance, if  $\mathcal{S} = \{1, \dots, 6\}$  and the support is  $\{2, 4, 5\}$ , then  $\mathcal{S}' = \{2, 3, 4\}$ . It excludes the highest value of the support, 5, but includes 3 because  $0 < H(3) < 1$  even though  $P(Y_k = 3) = 0$ . We use  $\mathcal{S}'$  because, as becomes transparent later, our mechanisms rely on properties of cumulative distribution functions, not probability (or density) functions.

positively associated with receiving a signal 1 about  $l$  than the rating of item  $k$  is.<sup>5</sup> Let the collection of items be, for instance, all movies of a franchise, and let the rating be how much the movies will earn in the first month after their release. If the agent learns that movie  $l = 4$  has grossed \$20,000,000 so far (so  $Y_4$  will be at least that amount), he may update his probability of liking that movie upward. If, instead, he learns that another movie, e.g.,  $k = 3$ , has grossed \$20,000,000 so far, he may also update his probability to like movie 4 upward, but less so. He may even decrease his probability to like movie 4 if he thinks that a great movie 3 means a less good movie 4. Our assumption allows for biases or distrust of the underlying ratings. For instance, the agent may think that the rating is biased by the fact that some people see all movies of the franchise anyhow, good or bad. **Assumption 2** holds as long as the biases neither eliminate nor reverse the stronger relation between a high rating of  $l$  and a signal 1 than between a high rating of  $k$  and a signal 1.

Once the agent learns his signal  $t$ , he updates his beliefs about the ratings, which yields the posterior distribution function  $F_k^t(y) = P(Y_k \leq y \mid T = t)$ . Assumptions 1 and 2 guarantee that the signal influences his expectations about  $Y_l$  in a very specific way relative to any other  $Y_k$ . For any two cumulative distribution functions  $F$  and  $G$  with domain  $\mathcal{S}$ , we write  $F \succeq_{SD} G$  ( $F \succ_{SD} G$ ) and say that  $F$  (strictly) *first-order stochastically dominates*  $G$  when  $F(y) \leq G(y)$  for all  $y \in \mathcal{S}$  (with  $F(y) < G(y)$  for some  $y$ ).

**LEMMA 1.** *Assumptions 1 and 2 imply  $F_l^1(y) \succ_{SD} F_k^1(y)$  and  $F_k^0(y) \succ_{SD} F_l^0(y)$  for all  $k \neq l$ .*

The proof of **Lemma 1**, as well as all other proofs, is provided in the **Appendix**. Intuitively, a signal  $t = 1$  is more associated with high ratings of item  $l$  than with high ratings of item  $k$  and, therefore, shifts posterior  $F_l^1$  more to the right than posterior  $F_k^1$ . Note that we could have immediately assumed the implications of **Lemma 1**, which would be more general than Assumptions 1 and 2. The advantage of providing sufficient conditions is to clarify what types of items and ratings can be used. If the agent believes the rating of  $l$  is more positively correlated with the signal than the rating of  $k$  is and views all items of the collection as equivalent, ex ante, in terms of ratings, then his beliefs about the ratings of  $l$  and of any  $k \neq l$  once he has received his signal will satisfy the stochastic dominance properties spelled out in **Lemma 1**. These properties guarantee that signals can be identified from beliefs. Before we design bets based on this identification strategy, we introduce an additional assumption that we use in some of our results, in which we need the random variables  $Y_k$  and  $Y_l$  not only to be identically distributed, but also independent.

**ASSUMPTION 3 (Independence).** *For any  $k \in \mathcal{K}$  with  $k \neq l$ ,  $Y_k$  and  $Y_l$  are independent, and are conditionally independent given  $T$ .*

<sup>5</sup>**Assumption 2** also implies  $P(t = 1) \in (0, 1)$  because a degenerate prior gives the same posterior no matter what  $Y_l$  and  $Y_k$  are.

We could also replace conditional independence in [Assumption 3](#), using the fact that  $Y_k$  and  $Y_l$  are independent, by

$$\frac{P(t = 1 \mid Y_l, Y_k)}{P(t = 1 \mid Y_l)} = \frac{P(t = 1 \mid Y_k)}{P(t = 1)}.$$

In other words, how information about  $Y_k$  changes the probability of a positive signal is invariant to information about  $Y_l$ .

## 2.2 The bets

Let  $\pi$  be a *prize* (money, a gift, or an actual pie) that the agent likes. The absence of a prize is denoted by 0. Let  $\mathcal{E}$  be an event, an element of  $\mathcal{F}$ . A *bet on  $\mathcal{E}$*  assigns  $\pi$  to  $\mathcal{E}$  and 0 to the complement of  $\mathcal{E}$ . The agent has preferences over bets. If we do not explicitly mention that preferences are strict, we mean weak preferences.

**ASSUMPTION 4** (Probabilistic sophistication). *For any three events  $\mathcal{E}$ ,  $\mathcal{E}'$ , and  $\mathcal{G} \in \mathcal{F}$ , the agent prefers a bet on  $\mathcal{E}$  to a bet on  $\mathcal{E}'$  when he knows that  $\mathcal{G}$  occurred if and only if  $P(\mathcal{E} \mid \mathcal{G}) \geq P(\mathcal{E}' \mid \mathcal{G})$ .*

[Assumption 4](#) says that the agent is probabilistically sophisticated in the sense of [Machina and Schmeidler \(1992\)](#), and that preferences are consistent with  $P$ , the (subjective) probability measure that underlies the random variables. He may be risk-neutral or be a risk-averse expected utility maximizer, or even transform his probabilities as long as the transformation is strictly increasing in  $P$  so as to satisfy stochastic dominance ([Kahneman and Tversky 1979](#), [Tversky and Kahneman 1992](#)). [Assumption 4](#) implies that the agent strictly prefers  $\pi$  (a bet on  $\Omega$ ) to nothing (a bet on  $\emptyset$ ).

**DEFINITION 1.** For an arbitrary  $k \in \mathcal{K} \setminus \{l\}$ , a *top bet* is a bet on  $\{\omega \in \Omega : Y_l(\omega) > Y_k(\omega)\}$  and a *flop bet* is a bet on  $\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\}$ .

The center proposes a top bet and a flop bet to the agent, who may choose one of them (or reject both).

**LEMMA 2.** *Under Assumptions 1–4, the agent, before learning  $t$ , is indifferent between the top and the flop bet, but strictly prefers any of them to nothing.*

Ex ante, the agent has the same belief  $H$  about the distribution of  $Y_k$  and  $Y_l$  ([Assumption 1](#)), which are also independent ([Assumption 3](#)), and there is no reason to prefer betting on one rating being higher rather than the other ([Assumption 4](#)). Furthermore, the agent does not expect the ratings to be equal with certainty and, therefore, expects that both bets have a nonnull chance to yield the prize. The agent wants to participate in the betting. When he learns his signal, he has a clear preference for one of the bets, as established by the next theorem.

**THEOREM 1.** *Under Assumptions 1–4, for any  $k \in \mathcal{K} \setminus \{l\}$ , the agent strictly prefers the top bet if  $t = 1$  and the flop bet if  $t = 0$ .*

The following corollary makes explicit that the agent does not need to know  $k$ , which can be selected from the collection of items with a random device. We assume here and whenever we refer to such exogenous random devices that they are independent of all the random variables described so far and also conditionally independent given  $T$ , and that all elements of the collection have a positive probability of being drawn.

**COROLLARY 1.** *Theorem 1 remains valid if  $k$  is unknown to the agent and, instead, is randomly drawn from  $\mathcal{K} \setminus \{l\}$ .*

Even though the agent does not know which  $k$  will be drawn from item collection  $\mathcal{K}$ , the collection should still be clearly specified. If the agent can imagine any item, Assumptions 1–3 are less likely to hold.

Our results for the top and flop bets rely on (conditional) independence of the ratings. The center can also propose another type of simple bets to the agents that still reveals signals, but without relying on independence, only on the stochastic dominance conditions established in Lemma 1. For instance, the agent could be asked to bet on whether the rating of item  $l$  or the rating of item  $k$  will exceed some threshold. We call this approach *threshold betting*.

**DEFINITION 2.** A *threshold- $y$  bet* on  $k$  is a bet on  $\{\omega \in \Omega : Y_k(\omega) > y\}$ .

If the ratings are taken from Rotten Tomatoes, a threshold-60 bet would yield the prize only if the rating of the movie exceeds 60%. Ex ante, the agent is indifferent between the items on which the threshold- $y$  bets are based.

**LEMMA 3.** *Under Assumptions 1 and 4, for any  $y \in S'$  and  $k \in \mathcal{K} \setminus \{l\}$ , the agent, before learning  $t$ , is indifferent between a threshold- $y$  bet on  $k$  and a threshold- $y$  bet on  $l$ , but strictly prefers either of them to nothing.*

Assumptions 1–4 are about the agent's beliefs and behavior, not about objective features of a signal technology. In that sense, they may be difficult to verify. However, Lemma 3 provides a way to test Assumptions 1 and 4 jointly. Before previewing a movie, the agent should be indifferent between the bets.

**THEOREM 2.** *Under Assumptions 1, 2, and 4, for any  $y \in S$  and  $k \in \mathcal{K} \setminus \{l\}$ , the agent strictly prefers a threshold- $y$  bet on  $l$  to a threshold- $y$  bet on  $k$  if  $t = 1$  and prefers a threshold- $y$  bet on  $k$  to a threshold- $y$  bet on  $l$  if  $t = 0$ .*

**COROLLARY 2.** *Theorem 2 remains valid if  $k$  is unknown to the agent and will be randomly drawn from  $\mathcal{K} \setminus \{l\}$  and/or if  $y$  is unknown to the agent and will be randomly drawn from  $S$ .*

A challenge of Theorem 2 is to find a value from the support to use as threshold, because the support, unlike the domain, is subjective. The center can mitigate the problem



by avoiding extreme values. **Corollary 2** solves the challenge by proposing to randomly draw a value from  $S$  after the agent chooses a bet.

Before receiving a signal, the agent is indifferent between top and flop bets (**Lemma 2**), and also between threshold- $y$  bets on  $l$  and threshold- $y$  bets on  $k$  (**Lemma 3**). No matter which signal he receives, his winning probability always increases if he chooses optimally. With threshold- $y$  bets, the winning probability with optimal choices is  $P(t = 1)P(Y_l > y | t = 1) + P(t = 0)P(Y_k > y | t = 0)$ , which strictly exceeds the no-signal chance of winning  $P(Y_l > y) (= P(Y_k > y))$ .<sup>6</sup> The difference between the two gives us the ex ante value of the signal (in terms of winning chances). The same reasoning applies to top-flop betting.

Now imagine that the agent has to pay a cost (or provide an effort) to acquire the signal. He will compare this cost to the benefit—the increase in the probability of getting  $\pi$ .

**REMARK 1.** The ex ante value of the signal is positive. Hence, under common regularity assumptions (continuity in utility), there exists a nondegenerate range of costs that the agent is willing to pay to acquire the signal.

How much (effort) the agent is willing to spend on the signal depends on his whole utility function. Calculating it would require further assumptions about the decision model of the agent (beyond **Assumption 4**). Obviously, we can expect that increasing the value of the prize increases the maximum cost the agent is willing to pay. What we claim is that our simple bets can stimulate signal acquisition. In practice, they can be used to motivate people to look for a piece of information, preview a movie, or carefully evaluate a product.<sup>7</sup>

### 3. BETTING ON ENDOGENOUS RATINGS

#### 3.1 *Agents, their signals, and their beliefs*

We now consider multiple agents  $i \in \mathcal{I} = \{1, \dots, Kn\}$ , i.e.,  $n \geq 2$  agents per item. In the simplest case, with two items, we need a minimum of four agents. In this section, most variables and objects from the previous section become agent-specific, which is indicated by subscript  $i$ . Each agent  $i$  gets a signal  $T_i \in \mathcal{T} = \{0, 1\}$  about item  $l_i \in \mathcal{K}$ . The set of agents with a signal about  $k$  is  $\mathcal{I}_k \equiv \{j \in \mathcal{I} : l_j = k\}$  and it has cardinality  $n$ . The state space is  $\Omega = \mathcal{T}^{Kn}$ , where a state  $\omega$  is the vector of signals received by the  $Kn$  agents. (We need not specify ratings here, as becomes apparent later.)

Agent  $i$  is offered to bet on ratings based on the others' actions in the games to be defined in the next subsection. For item  $k = l_i$ , “the others” means  $\mathcal{I}_{i,k} \equiv \mathcal{I}_k \setminus \{i\}$ . In what

<sup>6</sup>To prove this, we have  $P(Y_l > y) = P(t = 1)P(Y_l > y | t = 1) + P(t = 0)P(Y_l > y | t = 0)$  by definition. Replacing the  $P(Y_l > y | t = 0)$  by the strictly larger  $P(Y_k > y | t = 0)$  (according to **Theorem 2**) establishes the result.

<sup>7</sup>If the incentives are too high, the approach can backfire, and the agent may start looking for pieces of information other than his private signal, distorting what the center aimed to elicit. In the context of belief elicitation with scoring rules, this problem is discussed by **Schotter and Trevino (2014)**, and a solution is proposed by **Tsakas (2020)**.



follows, it is desirable to consider sets of agents with the same cardinality as this set of others. We, therefore, define for items  $k \neq l_i$ ,  $\mathcal{I}_{i,k} \equiv \mathcal{I}_k \setminus \{j\}$  with  $j = \max \mathcal{I}_k$  (any other  $j$  could be chosen as well). We can now define the analog of the random variables  $Y_k$  of the preceding section. For all  $i$  and  $k$ ,

$$Y_{i,k} = \sum_{j \in \mathcal{I}_{i,k}} T_j.$$

The random variable  $Y_{i,k}$  is, for agent  $i$ , the number of other agents who received signal 1 for item  $k$ . As in the previous section, agent  $i$ 's belief  $P_i$ , defined over  $\Omega$ , generates a prior distribution  $H_{i,k}$  about  $Y_{i,k}$ . The domain of  $H_{i,k}$  is  $\mathcal{S}_i = \mathcal{S} = \{0, \dots, n - 1\}$  because  $Y_{i,k}$  can take values between 0 and  $n - 1$ . The set  $\mathcal{S}'_i$  is defined similarly as  $\mathcal{S}'$  in the preceding section.

EXAMPLE 1. The simplest case of our setting is  $n = K = 2$ , involving four agents. State  $\omega$  is a quadruplet of signals  $(t_1, t_2, t_3, t_4)$ . With  $l_1 = l_2 = 1$ ,  $l_3 = l_4 = 2$ ,  $\mathcal{I}_{1,2} = \{3\}$ , and  $\omega = (t_1, t_2, t_3, t_4)$ , we have  $Y_{1,1}(\omega) = t_2$  and  $Y_{1,2}(\omega) = t_3$ . ◇

ASSUMPTION 5 (Common knowledge). *Agents share the common belief that Assumption 4 holds for all agents  $i \in \mathcal{I}$ , with all  $P_i$ s themselves common knowledge.*

Assumption 5 means that agents may all have different  $P_i$ s, but they know that everyone satisfies first-order stochastic dominance with respect to their own beliefs. Furthermore, if Assumptions 1, 2, and 3 hold for all  $P_i$ s, then this fact is automatically common knowledge because the beliefs  $P_i$  are themselves common knowledge. Assumptions 1, 2, and 5 do not require that all agents in  $\mathcal{I}_k$  have the same probability of getting a signal 1. Agent  $i$  can think everyone is different and even that some people dislike everything (trolls). What we need is that each agent  $i$  perceives  $T_i$  and  $Y_{i,k}$  to be more associated when  $k = l_i$  than when  $k \neq l_i$ . Independence (Assumption 3) can now be justified if, for instance, signals of any two agents  $i$  and  $j$  are independent when  $l_i \neq l_j$ .

### 3.2 The games

In what follows, we first define interim preferences, i.e., preferences conditional on signals: what agents believe and prefer if their signal is 0 versus if their signal is 1. Agents must then decide, ex ante, what they will do for each possible signal. We obtain a Bayesian game and, finally, define a (Bayesian) Nash equilibrium of this game.

We first define a generic game with the same *action set*  $\mathcal{A} = \{0, 1\}$  for all agents, with  $a_i$  the action of agent  $i$ . The *payoff function* of the game for agent  $i$  is  $\Pi_i : \mathcal{A}^{Kn} \rightarrow \{0, \pi\}$ . Each agent chooses a *strategy*, which is a pair of actions  $(a_i^0, a_i^1) \in \mathcal{A}^2$ , where  $a_i^0$  will be implemented in state  $\omega$  if  $T_i(\omega) = 0$  and  $a_i^1$  will be implemented if  $T_i(\omega) = 1$ . A *strategy profile*, i.e., the strategy of all agents, is denoted by  $(a^0, a^1) \in (\mathcal{A}^2)^{Kn}$ . The *implemented action* for agent  $i$  in state  $\omega$  is  $a_i^{T_i(\omega)}$ , which we write  $a_i^\omega$  for short. We similarly denote  $a^\omega \in \mathcal{A}^{Kn}$  as the *profile of implemented actions*.

EXAMPLE 1 (Continued). A strategy profile is of the form  $((a_1^0, a_1^1), (a_2^0, a_2^1), (a_3^0, a_3^1), (a_4^0, a_4^1))$ . If the realized state is  $\omega = (0, 1, 1, 0)$ , then the profile of implemented actions is  $a^\omega = (a_1^0, a_2^1, a_3^1, a_4^0)$ . The payoff function  $\Pi_i$  of agent  $i$  assigns either 0 or  $\pi$  to any such quadruplet.  $\diamond$

The agents have (interim) preferences over strategy profiles, conditional on their signal and denoted by  $\succsim_{i|T_i}$ . Assumption 5, which includes Assumption 4, implies that it is common knowledge that  $(a^0, a^1) \succsim_{i|T_i} (b^0, b^1)$  if and only if

$$P_i(\{\omega \in \Omega : \Pi_i(a^\omega) = \pi\} | T_i) \geq P_i(\{\omega \in \Omega : \Pi_i(b^\omega) = \pi\} | T_i). \tag{1}$$

In (1), the agent first determines which states  $\omega$  yield  $\pi$  if the strategy profile is  $(a^0, a^1)$  and if the strategy profile is  $(b^0, b^1)$ . The agent then compares the probability (given his signal) of the states yielding  $\pi$  when the strategy profile is  $(a^0, a^1)$  to the probability obtained if the strategy profile is  $(b^0, b^1)$ . Agent  $i$  finally chooses the strategy profile that gives a higher chance to get  $\pi$ .

With  $\mathcal{I}, \Omega, \mathcal{A}, \mathcal{T}, T_i, P_i$ , and  $\succsim_{i|T_i}$ , we define a Bayesian game, further assuming common knowledge of  $\Omega, \mathcal{I}, \mathcal{T}, \mathcal{A}$ , and the  $\Pi_i$ s.<sup>8</sup> Let  $(b_i^0, b_i^1; a^0, a^1)$  be the strategy profile, which replaces  $a_i^0$  and  $a_i^1$  by  $b_i^0$  and  $b_i^1$  in  $(a^0, a^1)$ . A strategy profile  $(a^0, a^1)$  is a *Nash equilibrium* of the Bayesian game if for all  $i \in \mathcal{I}$ ,  $(a^0, a^1) \succsim_{i|T_i} (b_i^0, b_i^1; a^0, a^1)$  for all  $(b_i^0, b_i^1) \in \mathcal{A}^2$ . We say that the Nash equilibrium is *strict* if, in addition and for all  $i$ ,  $(a^0, a^1) \succ_{i|T_i=0} (b_i^0, a_i^1; a^0, a^1)$  for all  $b_i^0 \in \mathcal{A} \setminus \{a^0\}$  and  $(a^0, a^1) \succ_{i|T_i=1} (a_i^0, b_i^1; a^0, a^1)$  for all  $b_i^1 \in \mathcal{A} \setminus \{a^1\}$ . Strict means that the implemented action is strictly preferred (even though the not implemented action is only weakly preferred).

We can now define top-flop and threshold-y games. Each agent  $i$  is offered bets on (individualized) ratings  $\widehat{Y}_{i,k}$  defined as a function of an action profile  $a \in \mathcal{A}^{Kn}$  by

$$\widehat{Y}_{i,k} = \sum_{j \in \mathcal{I}_{i,k}} a_j.$$

In Section 2, the ratings were exogenous and agents had beliefs about them. In the present section, we provide a game-theoretic foundation for the ratings, which are endogenously determined by the actions of others. Agents now have beliefs about signals, which translate into beliefs about ratings  $\widehat{Y}_{i,k}$  for a given strategy profile. The payoff function of the game is defined on the  $\widehat{Y}_{i,k}$ s. We first assign  $h_i$  to each agent  $i$ , given by  $h_i = l_i + 1$  if  $l_i < K$  and  $h_K = 1$ .

DEFINITION 3. In a *top-flop game*,  $\Pi_i$  assigns  $\pi$  to  $\{a \in \mathcal{A}^{Kn} : a_i = 1 \ \& \ (\widehat{Y}_{i,l_i} > \widehat{Y}_{i,h_i})\}$  (top case) and to  $\{a \in \mathcal{A}^{Kn} : a_i = 0 \ \& \ (\widehat{Y}_{i,l_i} < \widehat{Y}_{i,h_i})\}$  (flop case). It assigns 0 to all other elements of  $\mathcal{A}^{Kn}$ .

<sup>8</sup>Harsanyi (1968) defines Bayesian games where the difference in beliefs arises from an objective information mechanism, which is common knowledge. Interim beliefs may differ, but prior beliefs are the same. In our case, prior beliefs may also differ. However, the (possibly different) priors are common knowledge, which still allows agents to infer others' interim beliefs and preferences. See Osborne and Rubinstein (1994, Section 2.6.3) for a discussion, and see their Definition 25.1 of a Bayesian game and Definition 26.1 of a Nash equilibrium of a Bayesian game, which we followed here.

$\widehat{Y}_{1,1}$	$\widehat{Y}_{1,2}$	$a_1 = 0$	$a_1 = 1$
$a_2 = 0$	$a_3 = 0$	0	0
$a_2 = 0$	$a_3 = 1$	$\pi$	0
$a_2 = 1$	$a_3 = 0$	0	$\pi$
$a_2 = 1$	$a_3 = 1$	0	0

TABLE 1. Payoff function of agent 1 in a top-flop game with four agents.

The payoff function is defined such that choosing action 1 is equivalent to choosing a top bet; it pays  $\pi$  if  $\widehat{Y}_{i,l_i} > \widehat{Y}_{i,h_i}$ . Similarly, choosing action 0 is equivalent to choosing a flop bet, which pays off if  $\widehat{Y}_{i,l_i} < \widehat{Y}_{i,h_i}$ .

EXAMPLE 1 (Continued). With  $l_1 = l_2 = 1, l_3 = l_4 = 2$ , agents 1 and 2 get a signal about item 1, and agents 3 and 4 get a signal about item 2. Furthermore,  $\widehat{Y}_{1,1} = a_2$  and  $\widehat{Y}_{1,2} = a_3$ , which means agent 1 bets on the actions of agents 2 and 3. Table 1 describes  $\Pi_1$ .

First note that for agent 1, the action of agent 4 does not affect his payment. Second, he wins  $\pi$  in two cases: (i) if he and agent 2 report 0 while agent 3 reports 1; (ii) if he and agent 2 report 1 while agent 3 reports 0. Case (i) is a flop bet, where item 2 gets a higher rating ( $\widehat{Y}_{1,2} = 1$ ) than item 1 ( $\widehat{Y}_{1,1} = 0$ ). Symmetrically, case (ii) is a top bet.  $\diamond$

THEOREM 3. If all agents  $i \in \mathcal{I}$  satisfy Assumptions 1–4 and if Assumption 5 holds, then  $(a^0, a^1)$  with  $a_i^0 = 0$  and  $a_i^1 = 1$  for all  $i \in \mathcal{I}$  is a strict Nash equilibrium of a top-flop game.

In the proof (Appendix B), we first establish that if every  $j \neq i$  plays  $(0, 1)$ , then  $\widehat{Y}_{i,k} = Y_{i,k}$  for all  $k$ . By Theorem 1, the best response of agent  $i$  is then to choose a flop bet if  $T_i = 0$  and a top bet if  $T_i = 1$ , hence picking strategy profile  $(0, 1)$ . All this is common knowledge, so the agents’ beliefs are consistent with the Nash equilibrium.

COROLLARY 3. Under the assumptions of Theorem 3, all agents strictly prefer the equilibrium of a top-flop game in which all agents play  $(0, 1)$  to all agents playing  $(0, 0)$  or all agents playing  $(1, 1)$ .

By construction, degenerate strategy profiles where everyone plays  $(0, 0)$  or everyone plays  $(1, 1)$  yields payoff 0. Hence, the equilibrium  $(0, 1)$  is preferred because it gives a chance to get  $\pi$ . We now turn to threshold- $y$  betting that we similarly transform into a game.

DEFINITION 4. In a threshold- $y$  game, for  $y \in \{0, \dots, n-2\}$ ,  $\Pi_i$  assigns  $\pi$  to  $\{a \in \mathcal{A}^{Kn} : a_i = 1 \ \& \ (\widehat{Y}_{i,l_i} > y)\}$  and to  $\{a \in \mathcal{A}^{Kn} : a_i = 0 \ \& \ (\widehat{Y}_{i,h_i} > y)\}$ . It assigns 0 to all other elements of  $\mathcal{A}^{Kn}$ .

With the payoff functions of a threshold- $y$  game, agent  $i$  gets  $\pi$  when playing 1 if item  $l_i$  exceeds threshold  $y$  and when playing 0 if item  $h_i$  exceeds threshold  $y$ . The threshold can be any value up to  $n - 1$  because  $\widehat{Y}_{i,k}$  can never exceed  $n$ .

$\widehat{Y}_{1,1}$	$\widehat{Y}_{1,2}$	$a_1 = 0$	$a_1 = 1$
$a_2 = 0$	$a_3 = 0$	0	0
$a_2 = 0$	$a_3 = 1$	$\pi$	0
$a_2 = 1$	$a_3 = 0$	0	$\pi$
$a_2 = 1$	$a_3 = 1$	$\pi$	$\pi$

TABLE 2. Payoff function of agent 1 in a threshold-0 game with four agents.

EXAMPLE 2 (Continued). With four agents, only a threshold-0 game is possible.<sup>9</sup> Agent 1 still bets on the actions of agents 2 and 3 but  $\Pi_1$  is now as in Table 2.

Agent 1 wins  $\pi$  in two cases: (i) if he and agent 2 play 1 ( $a_1 = a_2 = 1$ ); (ii) if he plays 0 while agent 3 plays 1 ( $a_1 = 0$  and  $a_3 = 1$ ). Case (i) is a bet on the rating of item 1 (= the action of agent 2) exceeding 0 and case (ii) is a bet on the rating of item 2 (= the action of agent 3) exceeding 0. The last row of the table differs from the top-flop game.  $\diamond$

THEOREM 4. *If all agents  $i \in \mathcal{I}$  satisfy Assumptions 1, 2, and 4, and if Assumption 5 holds, then  $(a^0, a^1)$  with  $a_i^0 = 0$  and  $a_i^1 = 1$  for all  $i$  is a strict Nash equilibrium of a threshold- $y$  game when  $y \in S'_i$  for all  $i$ .*

COROLLARY 4. *Under the assumptions of Theorem 4,  $(a^0, a^1)$  with  $a_i^0 = 0$  and  $a_i^1 = 1$  for all  $i$  is a strict Nash equilibrium of a threshold- $y$  game when  $y$  is randomly drawn from  $S$ .*

Theorem 4 has two main limitations. First, all agents must think the threshold is not trivial, i.e., neither too high nor too low. A solution, given by Corollary 4 is to draw the threshold randomly ex post. Second, unlike in the top-flop game, there exists an equilibrium that would be preferred by all agents to playing (1, 0). If they all play (1, 1), they can all win with certainty. This equilibrium can be excluded by altering  $\Pi_i$  such that it is 0 if  $\widehat{Y}_{i,l_i} = \widehat{Y}_{i,h_i} = n - 1$  (the maximum rating). This modification of the payoff function is not anodyne and requires us to bring back Assumption 3.<sup>10</sup>

#### 4. DISCUSSION

##### 4.1 Limitations and related literature

In the exogenous-rating setting, it is important that the agent does not expect the center to have control over  $Y_k$ . A suspicious agent would then enter a game with the center. Suspicion can be avoided or at least mitigated by using ratings controlled by an independent third party or involving a multitude of people. For instance, the rating can be the price established on a large prediction market at a given time. This would make it clear that influencing the rating would cost more to the center than paying  $\pi$  to the agent.

Our exogenous-rating setting relates to the literature on canonical contract design for adverse selection problems as in Mirrlees (1971), Maskin and Riley (1984), and Baron

<sup>9</sup>Rating  $\widehat{Y}_{i,k}$  can only be 0 or 1 and, therefore, can only strictly exceed 0.

<sup>10</sup>The probability of getting  $\pi$  no longer depends on either  $\widehat{Y}_{i,l_i}$  if  $a_i = 1$  or  $\widehat{Y}_{i,h_i}$  if  $a_i = 0$ , but on both  $\widehat{Y}_{i,l_i}$  and  $\widehat{Y}_{i,h_i}$  for all  $a_i$ .

and Myerson (1982). For instance, in the classical monopoly setting, the principal (the center in our setting) does not know the agent's private information, but she can screen different types of agents by offering them an incentive-compatible menu of contracts, under which the agent will pick the one revealing his true type. Since the screening is achieved by leveraging the structure of agents' preferences, the principal is required to know the preference for each type and its distribution. Our methods do not require that because our screening techniques are based mainly on the complementarity between the rating and the private signal for each agent. This is possible because, in our setting, agents have no other incentives (to either reveal or hide the signals) than trying to win the prize.

Our Bayesian game setting relates to a strand of literature in mechanism design, including Myerson (1986) and Crémer and McLean (1988). Both mechanisms construct truth-telling equilibrium by exploiting the correlation of private information across agents. As in Myerson (1986), truth-telling in our paper is an equilibrium, but need not be the only one. Hence, undesirable equilibria may also occur, and our Theorems 3 and 4 are partial implementation results. By contrast, Maskin (1999) constructed mechanisms with full implementation, i.e., not only admitting desirable equilibria, but also excluding undesirable equilibria. Unlike in Crémer and McLean (1988), the person extracting the information (the center) in our setting does not need to know the prior of the agents. Our mechanisms are detail-free; they can be implemented without knowing the details of the signal technology. In that sense, the top-flop and threshold games get very close to the desiderata of the Wilson doctrine (Wilson 1987).

More recently, Bergemann and Morris spurred a renewed interest in partial and full implementation problems that do not rely on strong assumptions about agents' beliefs (Bergemann and Morris 2005, 2009a, 2009b). This led to the literature on robust implementation. Our results do not attain robustness in the sense that they do not guarantee incentive compatibility for all possible beliefs. They allow, however, for a relatively rich set of beliefs under common knowledge Assumption 5. Our approach in that regard is closest to that of Ollár and Penta (2017) and Ollár and Penta (2019), who studied partial and full implementation under sets of beliefs based on common knowledge assumptions. Assumption 5 is an instance of the general belief restrictions in Ollár and Penta (2017).

Bayesian methods to elicit private signals in surveys or on crowd-sourcing platforms have been proposed by Prelec (2004), Miller et al. (2005), Witkowski and Parkes (2012b), Radanovic and Faltings (2013), Baillon (2017), and Cvitanić et al. (2019). All these papers rely on common-prior assumptions, sometimes weakly relaxing them. Our common knowledge assumption is much weaker, allowing all agents to disagree on the probability of observing some signals. Note that for the Nash equilibrium to be credible, the key point is not so much that agents know the priors of all other agents, but rather that they know that these priors are well behaved as described by Assumptions 2 and 3.

Witkowski and Parkes (2013) were first to show that using multiple tasks relaxes the common prior and allows for beliefs to diverge from some "true" signal technology. They provide a mechanism that is minimal, like ours, and unlike the papers discussed in the previous paragraph, with the exception of Miller et al. (2005), in that it requires only

one report (in our case, one bet) from each agent. Their mechanism then uses the empirical signal distribution, to be elicited over time, as a proxy for beliefs and applies a scoring approach comparable to that of Miller et al. (2005). Our mechanisms do not require such payment delays, and our payoff rules are simpler and more transparent than theirs.

Our beliefs assumptions are very close to those of Dasgupta and Ghosh (2013) and Shnayder et al. (2016). These papers consider a signal correlation matrix and assume that it describes the beliefs of all agents. However, Shnayder et al. (2016) do point out that only the structure of the correlations matters and, therefore, heterogeneity in beliefs would be possible (their footnote 7 and Section 5.4). Unlike the present paper, Dasgupta and Ghosh (2013) and Shnayder et al. (2016) consider only game settings and require that each agent receives signals about two items (in their setting, performs two tasks) whereas our agents receive a signal about only one item.

A major limitation of our paper, which is shared by Dasgupta and Ghosh (2013) but not by Shnayder et al. (2016), is that we can only handle binary signals. Extending our results to nonbinary signals is not trivial and would require much heavier assumptions about beliefs, especially correlations between signals and ratings. With binary signals, signal 1 being associated with high ratings means that signal 0 is associated with low ratings. With nonbinary signals, such implications no longer hold. Imagine that signals are satisfaction levels  $\{1, 2, 3\}$  and that we have, for each item  $k$ , three ratings  $Y_k^1$ ,  $Y_k^2$ , and  $Y_k^3$  (for instance, the number of other agents reporting signals 1, 2, and 3, respectively). An agent with satisfaction level 3 can reasonably increase the probability that  $Y_k^3$  is at least  $y$ , but also the probability that  $Y_k^2$  is at least  $y$ . A possible approach is to split the agent sample between three groups. Some agents get the possibility to bet on  $Y_k^3$  versus  $Y_l^3$ , which can reveal whether their signal was 3 or not 3. Other agents get the possibility to bet on  $Y_k^2$  versus  $Y_l^2$  and the last agents bet on  $Y_k^1$  versus  $Y_l^1$ .

Top-flop and threshold betting can handle many cases of binary signals, but our setting and assumptions limit the scope of application. For instance, for political elections, the identical prior assumption is unlikely to hold for any collection of candidates. Our setting also requires that the ratings are still unknown when agents bet. This may pose a problem in cases such as hotel reviews (even if the review is restricted to be binary), when hotels have publicly available ratings. However, the simple bets of this paper could still be used to incentivize honest reporting by test clients in new hotels before opening.

Throughout the paper, we implicitly assumed that the center, offering the bets or organizing the games, is willing to pay up to  $\pi$  for each signal. Often, participation in surveys or experiments is rewarded. What we propose here is to use this reward as prize  $\pi$ , to make agents reveal their signal instead of rewarding them only for providing *any* answer. Our results from the game setting assume that agents cannot communicate. If they could, a full coalition can make sure they get  $\pi$  with probability 1 if  $K$  is even, and all agents with even items play 1 and all agents with odd items play 0. A way to deter such coalitions is to make the game zero sum.

#### 4.2 *Practical implementation and examples*

Organizing top-flop or threshold betting on exogenous ratings is easier to implement in practice than the respective game versions. Threshold betting can, for instance, be combined with prediction markets. When people predict the rating of a movie or the results of a song contest, they do not report their own taste, but their beliefs about others. Threshold betting, where the rating is defined as the price in the prediction markets for items  $l$  and  $k$  at a given time, reveals people's own taste (under the assumptions and setting of Section 2). A threshold- $y$  bet on prediction market  $k$  is a digital option that pays  $\pi$  if the price reaches  $y$ . In other words, top-flop and threshold bets can be implemented as derivatives of existing markets.

Let us conclude with two other examples. The director of a company considers where to invest in research and development. There is a set  $\mathcal{K}$  of possible product features that could be developed. The director would like to know for which feature the consumers would be willing to pay \$100 more. These features do not exist yet and, therefore, cannot be sold to consumers. Hence, eliciting the willingness-to-pay cannot be incentivized, for instance, with the Becker–deGroot–Marschak mechanism (Becker et al. 1964), because it would require actually selling the features. Instead, the director could implement a top-flop game among a panel of consumers, organized in  $K$  subgroups. Each subgroup of panelists is informed about a feature and have to bet top or flop, not knowing what the other possible innovative features are. A final example of possible application concerns environmental research. It is not always possible to incentivize the elicitation of the willingness-to-pay to save (or the willingness-to-accept for not saving) endangered species. Our simple bets can help there as well by providing subgroups of respondents with information about one (rare) species and ask them whether more people would pay a given amount to save the species they were informed about rather than another random species.

### 5. CONCLUSION

This paper introduced two methods—top-flop and threshold betting—to elicit private signals. The first part of the paper showed how to transform preexisting ratings, which may be biased or only partially informative, into a mechanism that incentivizes truthful revelation of signals. An agent betting on the ratings need not fully trust them, but believe only that they are somewhat associated with the signals. In the second part of the paper, the ratings naturally arise from the other agents' betting decisions. In retrospect, our bets, and, therefore, our mechanisms, look quite simple, but they have been overlooked so far in favor of more complex approaches. The payment rules of top-flop and threshold bets are transparent, with a unique, fixed prize assigned to a well defined event. We established conditions that ensure that top-flop and threshold betting properly reveal signals. These conditions are milder in terms of individual preferences than typically assumed in the literature and, therefore, are more likely to be satisfied in practical applications.



## APPENDIX A: PROOFS FOR THE SINGLE-AGENT SETTING

## A.1 Proof of Lemma 1

The posterior cumulative distribution for item  $l$  is  $F_l^1(y) = 1 - P(Y_l > y | t = 1)$ . By Bayes rule, we have

$$P(Y_l > y | t = 1) = \frac{P(t = 1 | Y_l > y)}{P(t = 1)} \times P(Y_l > y).$$

By definition,  $P(Y_l > y) = 1 - H_l(y)$ , and by Assumption 1,  $1 - H_l(y) = 1 - H_k(y) = P(Y_k > y)$ . Furthermore, Assumption 2 states that  $P(t = 1 | Y_l > y) > P(t = 1 | Y_k > y)$  if  $y \in \mathcal{S}'$ . Hence, we have

$$P(Y_l > y | t = 1) > \frac{P(t = 1 | Y_k > y)}{P(t = 1)} \times P(Y_k > y) = P(Y_k > y | t = 1) \quad (2)$$

if  $y \in \mathcal{S}'$  and

$$P(Y_l > y | t = 1) = P(Y_k > y | t = 1) = P(Y_k > y) \quad (3)$$

otherwise. As a conclusion,  $F_l^1 \succ_{\text{SD}} F_k^1$ .

We now consider  $t = 0$ . By definition,

$$P(Y_l > y | t = 0) = \frac{P(Y_l > y) - P(Y_l > y | t = 1)P(t = 1)}{P(t = 0)}$$

and

$$P(Y_k > y | t = 0) = \frac{P(Y_k > y) - P(Y_k > y | t = 1)P(t = 1)}{P(t = 0)}.$$

By Assumption 1,  $P(Y_l > y) = P(Y_k > y)$ , and by (2) and (3),  $F_k^0 \succ_{\text{SD}} F_l^0$ .

## A.2 Proof of Lemma 2

We have

$$\begin{aligned} P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\}) &= P\left(\bigcup_{s \in \mathcal{S}} \{\omega \in \Omega : Y_l(\omega) = s\} \cap \{\omega \in \Omega : Y_k(\omega) > s\}\right) \\ &= \sum_{s \in \mathcal{S}} P(\{\omega \in \Omega : Y_l(\omega) = s\} \cap \{\omega \in \Omega : Y_k(\omega) > s\}) \\ &= \sum_{s \in \mathcal{S}} P(\{\omega \in \Omega : Y_l(\omega) = s\}) \times P(\{\omega \in \Omega : Y_k(\omega) > s\}) \\ &= \sum_{s \in \mathcal{S}} P(Y_l = s) \times (1 - H_k(s)). \end{aligned}$$

The second equality comes from events  $\{\omega \in \Omega : Y_l(\omega) = s\}$  for any two  $s$  being disjoint. Independence (Assumption 3) implies the third equality. Because  $Y_l$  and  $Y_k$  are identically distributed,  $P(Y_l = s) = P(Y_k = s)$  and  $H_k(s) = H_l(s)$  for all  $s$ , and, therefore,

$P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\}) = P(\{\omega \in \Omega : Y_l(\omega) > Y_k(\omega)\})$ . By **Assumption 4**, the agent is indifferent between the top and the flop bet.

By **Assumption 4**, the agent would prefer a bet on  $\emptyset$  to the top bet or to the flop bet if and only if  $P(\{\omega \in \Omega : Y_l(\omega) > Y_k(\omega)\}) = 0$  or  $P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\}) = 0$ . We have just shown that  $P(\{\omega \in \Omega : Y_l(\omega) > Y_k(\omega)\}) = P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\})$ . Hence, the agent would prefer a bet on  $\emptyset$  if and only if  $P(\{\omega \in \Omega : Y_l(\omega) = Y_k(\omega)\}) = 1$ . This implies  $P(\{\omega \in \Omega : Y_l(\omega) = Y_k(\omega)\} \mid t = 1) = 1$  and, therefore,  $F_l^1(y) = F_k^1(y)$ . The latter contradicts  $F_l^1(y) \succ_{SD} F_k^1(y)$ , and according to **Lemma 1**, it is, therefore, incompatible with **Assumptions 1 and 2**. As a consequence, under **Assumptions 1–4**, the agent must strictly prefer any of the bets he is offered to nothing.

### A.3 Proof of Theorem 1

Assume  $t = 1$ . Then we have

$$\begin{aligned}
 &P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\} \mid t = 1) \\
 &= P\left(\bigcup_{s \in \mathcal{S}} \{\omega \in \Omega : Y_l(\omega) = s\} \cap \{\omega \in \Omega : Y_k(\omega) > s\} \mid t = 1\right) \\
 &= \sum_{s \in \mathcal{S}} P(\{\omega \in \Omega : Y_l(\omega) = s\} \cap \{\omega \in \Omega : Y_k(\omega) > s\} \mid t = 1) \\
 &= \sum_{s \in \mathcal{S}} P(\{\omega \in \Omega : Y_l(\omega) = s\} \mid t = 1) \times P(\{\omega \in \Omega : Y_k(\omega) > s\} \mid t = 1) \\
 &= \sum_{s \in \mathcal{S}} P(Y_l = s \mid t = 1) \times (1 - F_k^1(s)). \tag{4}
 \end{aligned}$$

The second equality comes from events  $\{\omega \in \Omega : Y_l(\omega) = s\}$  being disjoint for any two  $s$ . Conditional independence (**Assumption 3**) implies the third equality:

$$\begin{aligned}
 &P(\{\omega \in \Omega : Y_l(\omega) > Y_k(\omega)\} \mid t = 1) \\
 &= \sum_{s \in \mathcal{S}} P(Y_k = s \mid t = 1) \times (1 - F_l^1(s)) \\
 &> \sum_{s \in \mathcal{S}} P(Y_k = s \mid t = 1) \times (1 - F_k^1(s)) \\
 &\geq \sum_{s \in \mathcal{S}} P(Y_l = s \mid t = 1) \times (1 - F_k^1(s)) \\
 &= P(\{\omega \in \Omega : Y_l(\omega) < Y_k(\omega)\} \mid t = 1). \tag{5}
 \end{aligned}$$

The first equality comes from (4) (reversing  $l$  and  $k$ ) and the next inequality comes from **Lemma 1** because  $F_l^1(s) \succ_{SD} F_k^1(s)$  means that  $F_l^1(s) \leq F_k^1(s)$  with strict inequality for some  $s$ . Notice that stochastic dominance also implies that  $Y_l$  can be obtained from  $Y_k$  by moving probability mass from low values of  $\mathcal{S}$  to high values of  $\mathcal{S}$ . The weights  $(1 - F_k^1(s))$  are lower for high values of  $\mathcal{S}$  than for low values and, therefore, replacing  $Y_k$

by  $Y_l$  decreases the whole sum, which justifies the fourth line of the equation. The final line is obtained from (4).

Together with [Assumption 4](#), (5) implies that the agent prefers the top bet when his signal is  $t = 1$ . The proof from  $t = 0$  is symmetric.

#### A.4 Proof of Corollary 1

If  $k$  is randomly chosen in  $\mathcal{K} \setminus \{l\}$ , with the random device being independent of all random variables and conditionally independent given  $T$ , then the winning probability of the top and flop bets does not change, and the preferences given in [Theorem 1](#) still hold.

#### A.5 Proof of Lemma 3

Under [Assumption 1](#),  $H_k(y) = H_l(y) > 0$  for all  $y \in S'$ . This, together with [Assumption 4](#), gives the result.

#### A.6 Proof of Theorem 2

From [Lemma 1](#), we know that  $F_l^1(y) \succ_{SD} F_k^1(y)$  and  $F_k^0(y) \succ_{SD} F_l^0(y)$  for all  $k \neq l$ . More precisely, the proof shows  $F_l^1(y) < F_k^1(y)$  for all  $y \in S'$ , and by symmetry,  $F_l^0(y) > F_k^0(y)$ . We obtain, for all  $y \in S'$ ,  $P(Y_l > y \mid t = 1) > P(Y_k > y \mid t = 1)$  and  $P(Y_l > y \mid t = 0) < P(Y_k > y \mid t = 0)$ . [Assumption 4](#) then implies the preferences described in the theorem.

#### A.7 Proof of Corollary 2

If  $k$  is randomly chosen in  $\mathcal{K} \setminus \{l\}$ , with the random device being independent of all random variables and conditionally independent given  $T$ , then the winning probability of bets does not change and the preferences given in [Theorem 1](#) remain.

If  $y$  is drawn from  $S$ , either  $y \in S'$  and the strict preferences mentioned in [Theorem 2](#) hold or the events are equally likely and the agent would be indifferent. Hence, before knowing  $y$ , the strict preferences mentioned in [Theorem 2](#) hold.

### APPENDIX B: PROOFS FOR THE GAME SETTING

#### B.1 Proof of Theorem 3

Consider  $(b_i^0, b_i^1; a^0, a^1)$  with  $a_j^0 = 0$  and  $a_j^1 = 1$  for all  $j \neq i$  and  $(b_i^0, b_i^1) \in \mathcal{A}^2$ . Hence, in state  $\omega$ ,  $\widehat{Y}_{i,k} = \sum_{j \in \mathcal{I}_{i,k}} a_j^{T_j(\omega)} = \sum_{j \in \mathcal{I}_{i,k}} T_j(\omega)$ , which implies  $\widehat{Y}_{i,k} = Y_{i,k}(\omega)$  for all  $k$ , and noticeably for  $l_i$  and  $h_i$ . [Assumptions 1–4](#) hold and, therefore, applying [Theorem 1](#), agent  $i$  strictly prefers  $a_i^1 = 1$  to  $b_i^1 = 0$  (when  $b_i^0$  is fixed) if  $T_i = 1$  and strictly prefers  $a_i^0 = 0$  to  $b_i^0 = 1$  (when  $b_i^1$  is fixed) if  $T_i = 0$ . Thus,  $P_i(T_i = 0 \mid T_i = 1) = P_i(T_i = 1 \mid T_i = 0) = 0$  implies that the agent is indifferent between  $a_i^0 = 1$  and  $b_i^0 = 0$  (when  $b_i^1$  is fixed) if  $T_i = 1$ , and is indifferent between  $a_i^1 = 0$  and  $b_i^1 = 1$  (when  $b_i^0$  is fixed) if  $T_i = 0$ . Hence, under [Assumption 5](#), it is common knowledge that a best response of  $i$  to  $a_j^0 = 0$  and  $a_j^1 = 1$  for all  $j \neq i$  is  $a_i^0 = 0$  and  $a_i^1 = 1$ , and, therefore,  $(a^0, a^1)$  is a Nash equilibrium. It is a strict Nash equilibrium because we showed that  $(0, 1)$  is strictly preferred to  $(1, 1)$  given  $T_i = 0$  and  $(0, 1)$  is strictly preferred to  $(1, 0)$  given  $T_i = 1$ .

### B.2 Proof of Corollary 3

Note that the strategy profiles with  $b_i^0 = b_i^1 = 0$  for all  $i$  give payment 0 to everyone. The same is true for  $b_i^0 = b_i^1 = 1$ . By contrast, the equilibrium in Theorem 3 is strict, which would not be possible if the payment was 0.

### B.3 Proof of Theorem 4

The proof of Theorem 4 is similar to that of Theorem 3, simply using Theorem 2 instead of Theorem 1.

### B.4 Proof of Corollary 4

The proof of Corollary 4 is similar to that of Corollary 2.

## REFERENCES

- Baillon, Aurélien (2017), “Bayesian markets to elicit private information.” *Proceedings of the National Academy of Sciences*, 114, 7958–7962. [779, 789]
- Baron, David P. and Roger B. Myerson (1982), “Regulating a monopolist with unknown costs.” *Econometrica*, 50, 911–930. [788, 789]
- Becker, Gordon M., Morris H. DeGroot, and Jacob Marschak (1964), “Measuring utility by a single-response sequential method.” *Behavioral Science*, 9, 226–232. [791]
- Bergemann, Dirk and Stephen Morris (2005), “Robust mechanism design.” *Econometrica*, 73, 1771–1813. [789]
- Bergemann, Dirk and Stephen Morris (2009a), “Robust implementation in direct mechanisms.” *Review of Economic Studies*, 76, 1175–1204. [789]
- Bergemann, Dirk and Stephen Morris (2009b), “Robust virtual implementation.” *Theoretical Economics*, 4, 45–88. [789]
- Crémer, Jacques and Richard P. McLean (1988), “Full extraction of the surplus in Bayesian and dominant strategy auctions.” *Econometrica*, 56, 1247–1257. [789]
- Cvitanić, Jakša, Dražen Prelec, Blake Riley, and Benjamin Tereick (2019), “Honesty via choice-matching.” *American Economic Review: Insights*, 1, 179–192. [779, 789]
- Dasgupta, Anirban and Arpita Ghosh (2013), “Crowdsourced judgement elicitation with endogenous proficiency.” In *Proceedings of the 22nd International Conference on World Wide Web*. WWW ’13, 319–330, ACM, New York, New York, USA. [779, 780, 790]
- Harsanyi, John C. (1968), “Games with incomplete information played by “Bayesian” players part II. Bayesian equilibrium points.” *Management Science*, 14, 320–334. [786]
- Kahneman, Daniel and Amos Tversky (1979), “Prospect theory: An analysis of decision under risk.” *Econometrica*, 47, 263–291. [782]

- Kolmogoroff, Andrey (1933), *Grundbegriffe der Wahrscheinlichkeitsrechnung*. Julius Springer, Berlin, Germany. [780]
- Machina, Mark J. and David Schmeidler (1992), “A more robust definition of subjective probability.” *Econometrica*, 60, 745–780. [782]
- Maskin, Eric (1999), “Nash equilibrium and welfare optimality.” *Review of Economic Studies*, 66, 23–38. [789]
- Maskin, Eric S. and John Riley (1984), “Monopoly with incomplete information.” *Rand Journal of Economics*, 15, 171–196. [788]
- Miller, Nolan, Paul Resnick, and Richard Zeckhauser (2005), “Eliciting informative feedback: The peer-prediction method.” *Management Science*, 51, 1359–1373. [789, 790]
- Mirrlees, James A. (1971), “An exploration in the theory of optimum income taxation.” *Review of Economic Studies*, 38, 175–208. [788]
- Myerson, Roger (1986), “Multistage games with communication.” *Econometrica*, 54, 323–358. [789]
- Ollár, Mariann and Antonio Penta (2017), “Full implementation and belief restrictions.” *American Economic Review*, 107, 2243–2277. [789]
- Ollár, Mariann and Antonio Penta (2019), “Implementation via transfers with identical but unknown distributions.” Unpublished paper, Barcelona GSE working paper no 1126. [789]
- Osborne, Martin J. and Ariel Rubinstein (1994), *A Course in Game Theory*. MIT Press, Cambridge, Massachusetts. [786]
- Prelec, Dražen (2004), “A Bayesian truth serum for subjective data.” *Science*, 306, 462–466. [779, 789]
- Radanovic, Goran and Boi Faltings (2013), “A robust Bayesian truth serum for non-binary signals.” In *Proceedings of the Twenty-Seventh AAAI Conference on Artificial Intelligence*. AAAI’13, 833–839. [779, 789]
- Schotter, Andrew and Isabel Trevino (2014), “Belief elicitation in the laboratory.” *Annual Review of Economics*, 6, 103–128. [784]
- Shnayder, Victor, Arpit Agarwal, Rafael Frongillo, and David C. Parkes (2016), “Informed truthfulness in multi-task peer prediction.” In *Proceedings of the 2016 ACM Conference on Economics and Computation*. EC ’16, 179–196, ACM, New York, New York, USA. [779, 780, 790]
- Tsakas, Elias (2020), “Robust scoring rules.” *Theoretical Economics*, 15, 955–987. [784]
- Tversky, Amos and Daniel Kahneman (1992), “Advances in prospect theory: Cumulative representation of uncertainty.” *Journal of Risk and Uncertainty*, 5, 297–323. [782]
- Wilson, Robert B. (1987), “Game-theoretic analyses of trading processes.” In *Advances in Economic Theory: Fifth World Congress* (Truman F. Bewley, ed.), 33–70, Cambridge University Press, Cambridge. Chapter 2. [789]

Witkowski, Jens and David C. Parkes (2012a), “Peer prediction without a common prior.” In *Proceedings of the 2012 ACM Conference on Electronic Commerce*. EC '12, 964–981, ACM, New York, New York, USA. [779]

Witkowski, Jens and David C. Parkes (2012b), “A robust Bayesian truth serum for small populations.” In *Twenty-Sixth AAAI Conference on Artificial Intelligence*, volume 26. [779, 789]

Witkowski, Jens and David C. Parkes (2013), “Learning the prior in minimal peer prediction.” In *Proceedings of the 3rd Workshop on Social Computing and User Generated Content at the ACM Conference on Electronic Commerce*, volume 9. [779, 789]

---

Co-editor Thomas Mariotti handled this manuscript.

Manuscript received 26 May, 2020; final version accepted 10 September, 2020; available online 21 September, 2020.