Cooperation in a sequential N-person prisoner’s dilemma: The role of information and reciprocity

Jana Vyrastekova
Yukihiro Funaki

Nijmegen Center for Economics (NiCE)
Institute for Management Research
Radboud University Nijmegen

P.O. Box 9108, 6500 HK Nijmegen, The Netherlands
http://www.ru.nl/nice/workingpapers
Abstract

We investigate experimentally the possibility of cooperation in a sequential prisoners' dilemma game under the conditions identified by Nishihara (1997). He shows for (a subclass of) n-person prisoners' dilemma games that when players move sequentially, but the order of moves is not known, full cooperation can be attained in a Nash equilibrium under an information structure allowing for trigger strategies. In our experiments, we find that subjects do not coordinate frequently on the payoff dominant equilibrium identified by Nishihara. Moreover, cooperation is more frequent in the same sequential game played with a known order of moves. We relate this theoretically contraintuitive observation to the role of reciprocity.

Please send all comments to Jana Vyrastekova, Radboud University Nimegen, Department of Economics, PO Box 9108, 6500 HK Nijmegen, The Netherlands. Tel: +31-24-361 1588, Fax: ++31-24-361 2379, E-mail: J.Vyrastekova@fm.ru.nl.
Yukihiko Funaki: Waseda University, School of Political Economy and Economics, Tokyo, Japan.
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1Jana Vyrastekova and 2Yukihiko Funaki

1Radboud University Nijmegen, Department of Economics, Nijmegen, The Netherlands. 2Waseda University, School of Political Economy and Economics, Tokyo, Japan.

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Abstract

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JEL Classification: C72, C92, H41

Key words: n-person prisoner’s dilemma game, sequential moves, information, reciprocity, laboratory experiment.

*Please send all comments to Jana Vyrastekova, Radboud University Nijmegen, Department of Economics, PO Box 9108, 6500 HK Nijmegen, The Netherlands. Tel: +31-24-361 1588, Fax: ++31-24-361 2379, E-mail: J.Vyrastekova@fm.ru.nl.
1 Introduction

When the order of moves is known to the players in a sequential prisoners’ dilemma game, the only rational choice of a player moving as the last one in the sequence is to freeride. Consequently, the play of the game unravels and cooperation cannot be sustained in an equilibrium. Nishihara (1997) shows that under certain information and payoff structure of the game, when the order of moves in which players move is not known, players can use trigger strategies under which cooperation can be sustained as a Nash equilibrium in the sequential prisoners’ dilemma game.

In this paper, we use the experimental method to study this innovative view on the dilemma of cooperation, and we address two points. First, the game introduced by Nishihara (1997) has multiple equilibria. We therefore investigate experimentally whether the attractive payoff dominant equilibrium with cooperation has not only a normative but also a descriptive appeal. Second, the game provides players with just enough information to enable the use of trigger strategies in an equilibrium. We argue that the information removed from the game, but available in the sequential version of the game, is relevant when reciprocity plays a role among the game players. In particular, when individual preferences are private information, but it is known that some players hold preferences for reciprocity, the information on the order of move could generate strategic incentives for cooperation in the spirit of explaining cooperation in a finitely repeated 2-person’s prisoner’s dilemma by Kreps et al. (1982). Consequently, even if the game innovation proposed by Nishihara (1997) is not conductive to cooperation (when players do not select the cooperative equilibrium), the standard sequential game might be, due to the strategic response of some players to the possibility of a reciprocal behavior by others.

An experimental investigation of the Nishihara’s model is at hand as the information and payoff conditions identified by the author are intuitive and their appeal for explaining rational cooperation in the identified subclass of sequential prisoners’ dilemma games is therefore large. With respect to information structure, it is assumed that players know that the order of moves is randomly assigned so that every ordering is equally likely, but they do not learn the actual order in which they move. When asked to choose an action,
a player only observes whether someone chose the freerider’s action before his/her move, or not. Consequently, players cannot distinguish states in which (i) nobody has chosen an action in the game yet; (ii) some players have already chosen an action, but they all chose the cooperative action, or (iii) all players chose the cooperative action, and the player him/herself moves as the last in the sequence. With respect to the payoff structure, gains from full cooperation have to be sufficiently large compared to the average gains from freeriding (Nishihara 1997, Theorem A), or gains from cooperation have to be convex and gains from defection concave in the number of cooperators (Nishihara 1997, Proposition 3).

When the conditions described above are satisfied, players can use trigger strategies that prescribe the cooperative action unless a player reaches an information set according to which someone has already chosen the free-rider’s action. In that case, the deciding player chooses the freerider’s action as well. If the expected payoff from cooperation (taking into account the probability of each order of players being the same) is greater than the expected payoff from triggering the freeriding, then cooperation can be sustained in a Nash equilibrium of the game. Of course, the equilibrium without any cooperation is still feasible as well.

The conditions identified by Nishihara can apply to a range of real-life situations in which individuals sequentially take actions in a social dilemma. The decision whether to litter the street, or to take illegally an emergency lane on the highway may serve as examples. In both cases, an individual cannot assess whether a clean street or the part of the free highway in sight are due to the full cooperation of all players moving in the game before him/her, or whether he/she is the first player to move. However, a freerider’s action is easily observed (dirty street, clogging emergency lane) and can promptly lead to unravelling of cooperation. Moreover, the benefits from freeriding decrease fast with the number of other freeriders, just as is assumed above.

In this paper, we report experiments on a sequential prisoners’ dilemma game satisfying Nishihara’s payoff conditions. Each experiment participant is exposed both to this game with an unknown order of moves, as assumed by Nishihara, and to the game with the same payoff structure but with a known order of moves. Data on the subjects’ behav-
ior in the sequential prisoner's dilemma game with the known order of moves allows us to separate the equilibrium selection explanations of behavior in the Nishihara’s game from the explanations related to the preferences for reciprocity, and to evaluate the behavioral relevance of the trigger strategy equilibrium in both cases.

The remainder of the paper is organized as follows. The theory and hypotheses are explained in section 2. Section 3 discusses the experiment design and our observations. Section 4 concludes.

2 Theory and hypotheses

The game we study is an n-person sequential prisoner’s dilemma game with players \( i = 1, ..., n, \) \( n \geq 2, \) and with payoff function \( f_i(a_i|k) \) where \( a_i \in \{C, D\}, \) and \( k \in \{1, ..., n - 1\} \) is the number of other players choosing the action C. We refer to action C as the "cooperative" action, and to action D as the "freerider's" action. It is assumed that for \( i = 1, ..., n, \) it holds:

(i) \( f_i(C|k) < f_i(D|k) \) for any \( k = 0, ..., n - 1; \)

(ii) \( f_i(C|n - 1) > f_i(D|0); \)

(iii) \( f_i(C|k) \) and \( f_i(D|k) \) are increasing in \( k; \)

The game with the payoff function \( f_i(a_i|k) \) satisfying (i)-(iii) is a prisoners’ dilemma game: (i) it has strictly dominant strategy D; (ii) full cooperation is Pareto efficient; (iii) choosing action C imposes positive externality on all players.

The game is played sequentially and we will focus on the equilibrium predictions for two possible information structures of the game: the structure proposed by Nishihara (1997), denoting the game with such a structure by \( G_N, \) and a sequential move game with a known order of moves, denoted by \( G_S. \) In the game \( G_N, \) the order of moves in which players move is assigned randomly in such a way that every possible ordering of players in the game is equally likely, and the order of moves is not known to the players. In the game \( G_S, \) the order of moves is common knowledge among the players. In each move, a player knows how many players have decided before him/her.

Additionally, we assume for comparability reasons that in both games, \( G_N \) and \( G_S, \) a player asked to choose an action can only distinguish whether someone has chosen the
action $D$ before or not, but not how many players did so. Let us denote the information set at which nobody has chosen action $D$ before by $I_C$, and denote the complementary information set at which somebody has already chosen action $D$ before by $I_D$.

In the game $G_N$, subjects can distinguish only between these two information sets, $I_C$ and $I_D$. Hence, a pure strategy in the $G_N$ game is a pair $\sigma = (\sigma_C, \sigma_D)$ where $\sigma_C$ is chosen in the information $I_C$, and $\sigma_D$ is chosen in the complementary information set $I_D$. The strategy of a player $i$ in the game $G_S$ may additionally also depend on the order of move $o(i) \in \{1, 2, ..., n\}$, assigned the player, $\sigma = (\sigma^1_C, \sigma^2_C, ..., \sigma^n_C, \sigma^1_D, ..., \sigma^n_D)$. Note, in particular, that a player in the game $G_S$ either knows that he/she is the first one to move in the game and all players are yet to choose their actions, or that at least one player moving before him/her chose action $D$; or, that all players moving before him/her chose action $C$. This is different from a usual sequential game, where each player not only knows how many players have made their decision before, but also all the decisions they have made. In our game $G_S$, we restricted the information to facilitate the comparison with the game $G_N$.

Due to the information on the order of move, backwards induction excludes rational cooperation along an equilibrium path in the game $G_S$. Contrary to this, Nishihara shows (Nishihara (1997), Theorem A) that when the order of moves is not known to the players, and every player ordering is equally likely, and condition (*) $f_i(C|n-1) \geq \frac{1}{n} \sum_{k=0}^{n-1} f_i(D|k)$ for all $i = 1, ..., n$, is satisfied, then full cooperation is a Nash equilibrium in the game $G_N$. The cooperation can be sustained by the following trigger strategy $\sigma^* = (C, D)$: player $i$ chooses action $C$ if the information set he/she reached is one at which nobody choose action $D$ until his/her move; and chooses action $D$ otherwise. To see this, it is sufficient to show that no player has an incentive to deviate from action $C$ in the information set $I_C$. If player $i$ obeys the trigger strategy, then his/her payoff will be $f_i(C|n-1)$. If he chooses action $D$, then he triggers action $D$ to be chosen by all players ordered in the game after him, i.e. the if his order of move is $m = 1, ..., n$, then the payoff he’ll receive is $f_i(D|m-1)$, resulting in expected payoff from deviating from the trigger strategy $\sum_{k=0}^{n-1} f_i(D|k)$. The player has no motivation to deviate as long as $f_i(C|n-1) \geq \frac{1}{n} \sum_{k=0}^{n-1} f_i(D|k)$ for all $i = 1, ..., n$, i.e. if the condition (*) is satisfied.
In the experiment, we parametrize the sequential prisoner’s dilemma game satisfying Nishihara’s condition (*) as a five-player game, \( n = 5 \). It is induced from the payoff function \( g_i(x_i, k) = (k + x_i)^2 + 10(1 - x_i) \), for \( i = 1, \ldots, 5 \) where \( k = 1, 2, 3, 4 \) is the number of other players choosing C. Then, the payoff function of the game we study in this paper is given by \( f_i(C, k) = g_i(1, k) \) and \( f_i(D, k) = g_i(0, k) \). This payoff function satisfies the condition (*)\(^1\), as well as conditions (i), (ii) and (iii).

The game \( G_n \) has two types of equilibria: one resulting in full cooperation, where all players use the trigger strategy \( \sigma^* = (C, D) \), and one resulting in no cooperation, where all players use the strategy \( \sigma^D = (D, D) \).\(^2\) The first one, referred hereafter as "cooperative ", gives a higher payoff to all players than the second one, referred to as "uncooperative". Therefore, payoff dominance as an equilibrium selection argument favors the cooperative equilibrium. Our discussion so far assumes that the game and its payoffs fully represent the players’ preferences, i.e. that the game is played by rational and payoff-maximizing subjects. Assuming rational and payoff maximizing players only, however, would amount to ignoring a vast experimental evidence that human subjects, interacting in a given game, care not only for own material payoffs but also for material payoffs of their co-players.

In order to focus on the equilibrium selection process in the game \( G_N \), we first identify the subset of the experimental subjects who reveal to act as rational money-maximizers. These are the subjects who behave rationally in the game \( G_S \), choosing action D at each information set. Do these rational subjects select the payoff dominant equilibrium in the game \( G_N \)? We formulate the following hypothesis:

**Equilibrium selection hypothesis:** Rational money-maximizing subjects select an equilibrium in the game \( G_N \) guided by the payoff dominance criterion. They play the strategy \( \sigma^* = (C, D) \).

\(^1\) It holds: \( f_i(C|n-1) = 25 \) and \( \frac{1}{n} \sum_{k=0}^{n-1} f_i(D|k) = 16 \), so that \( f_i(C|n-1) > \frac{1}{n} \sum_{k=0}^{n-1} f_i(D|k) \).

\(^2\) There are only these two equilibria, \( \sigma^* \) and \( \sigma^D \), in the game \( G_N \), if the conditions (i)-(iii) below are satisfied. Let \( m \) be the number of players who choose \( \sigma^* \) other than player \( i \), and \( F_i(\sigma^*|m) \), or \( F_i(\sigma^D|m) \) is the expected payoff of player \( i \) when he chooses \( \sigma^* \), or \( \sigma^D \), respectively, in that situation.

(i) \( F_i(\sigma^*|0) < F_i(\sigma^D|0) \),
(ii) \( F_i(\sigma^*|n-1) > F_i(\sigma^D|n-1) \),
(iii) \( F_i(\sigma^*|m) - F_i(\sigma^D|m) \) is increasing in \( m \).

These conditions are satisfied by our experimental parametrization.
Two issues have to be discussed in relation to this hypothesis. While payoff dominance may seem an attractive rational equilibrium criterion, it has often been defeated in the presence of strategic risk. Previous experimental evidence shows that even in simple two-player coordination games, strategic risk (e.g. measured by risk dominance, see Harsanyi and Selten, 1988) intervenes with the equilibrium selection and defeats the payoff dominant equilibrium (see e.g. Van Huyck, Battalio and Beil, 1990, Berninghaus et al. 2000, Cabrales et al. 2000). Besides strategic risk, complexity might also affect the attraction of the trigger-strategy equilibrium in the game \( G_N \). Subjects are expected to evaluate the expected payoffs from each of the possible strategies, in order to find the trigger strategy to be the most attractive choice. In an experimental setup, unlike in a theoretical analysis, subjects might be prone to calculation or implementation mistakes, both resulting in a lower likelihood of the trigger strategy equilibrium. Whatever the underlying reasons, the game \( G_N \) can be seen as a solution to the social dilemma the players face only if they indeed (frequently) select to play the cooperative equilibrium. We put the equilibrium selection hypothesis to an empirical test.

Addressing the role of the information in the game \( G_N \), we further discuss the behavior of the subset of subjects choosing (at least at some occasions) a strategy different from the strategy \((D, (D, D), ..., (D, D))\) in the game \( G_S \). If the game the experimental subjects play is not described in terms of preference orderings, but merely in terms of monetary outcomes, as it usually is the case in experimental studies, then pro-social preferences held by some players may affect the play of the game. We therefore need to address the effect of pro-social preferences on the play of the cooperative equilibrium in the game \( G_N \). One pervasive behavioral regularity which is relevant here is the propensity to reciprocate positively to actions of players who benefited the reciprocator, and negatively to actions that hurt the reciprocator.\(^3\) Positive reciprocity implies the use of action \( C \) in the information set \( I_C \); negative reciprocity the use of action \( D \) in the information set \( I_D \), independent of whether such strategy maximizes the player’s material payoff.\(^4\)

\(^3\)For a seminal paper reporting positive reciprocity in an experiment, see Berg, Dickhaut and McCabe (1995), for negative reciprocity, see Fehr and Gaechter (2000).

\(^4\)Reciprocity is thus identified with a trigger-type strategy in the game \( G_S \), \( \sigma = (\sigma^1_C, (\sigma^2_C, \sigma^2_D), \ldots, (\sigma^5_C, \sigma^5_D)) = (C, (C, D), \ldots, (C, D), (C, D)) \), which starts-off by cooperation, and prescribes to use of
In theory, the information structure of the game $G_N$ creates a possibility of rational cooperation. At the same time, the information on the order of moves, not available in the game $G_N$, prevents identification of situations meriting positive reciprocity. When a player is ordered as a second or later player in the game $G_S$, he/she knows for sure that this information set $I_C$ has been reached thanks to the cooperation of the players ranked before him/her. In the game $G_N$, when a player has reached the information set $I_C$, he/she might be ordered as first in the sequence, and hence obtain no incentives for positive reciprocity. In this way, removing information on the order of move in the game $G^N$ dilutes the incentives for positive reciprocity at the information set $I_C$. More importantly, the missing information on the order of moves in the game $G_N$ is also crucial for generating strategic incentives to cooperate in the game $G_S$ for the money-maximizing subjects. Such incentives arise when preferences are private information, and reciprocators are known to populate the game with a sufficiently high probability. To demonstrate this point, let us assume that the players of the 5-player game $G_S$ implemented in the experiment are drawn from a population from which contains a fraction $r \in (0, 1)$ of reciprocal players, and a fraction $(1 - r)$ of money-maximizing players. Reciprocal players use the strategy

$$
\sigma = (\sigma^1_C, (\sigma^2_C, \sigma^2_D), \ldots, (\sigma^5_C, \sigma^5_D)) = (C, (C, D), \ldots, (C, D))
$$

in the game $G_S$: they always choose action $C$ in the information set $I_C$, even if ordered as last. Money-maximizing players choose action $C$ or $D$ depending on which gives them a higher expected payoff. The population composition is common knowledge.

**Lemma 1** If the fraction $r \in (0, 1)$ of reciprocators in the population exceeds a certain threshold, $r \geq \frac{1}{3}$, money-maximizing players will choose action $C$ in the information set $I_C$ in the game $G_S$ up to the order of move $t = 4$. Otherwise, they choose action $D$.

**Proof.** Let us analyze the optimal choice of a money-maximizer by backwards induction. Such a player will always choose $D$ at the order of move $t = 5$. If ordered at $t = 4$, and upon reaching information set $I_C$, money-maximizer weakly prefers action $C$ to action $D$ iff $19 \leq 25r + 16(1 - r)$ i.e. $r \geq \frac{1}{3}$.

action $C$ unless a subjects has previously observed action $D$ at any moment in the game.
• Assuming that $r < \frac{1}{3}$, and upon reaching information set $I_C$, money-maximizer prefers action $C$ to action $D$ if ordered at

- $t = 3$, iff $14 \leq 9(1 - r) + r[25r + 16(1 - r)]$ i.e. $r \geq \frac{-15 + \sqrt{205}}{-2} > \frac{1}{3}$; so that a money-maximizer will always choose $D$ at $t = 3$ when $r < \frac{1}{3}$.
- $t = 2$, iff $11 \leq 4(1 - r) + r[9(1 - r) + r[25r + 16(1 - r)]]$; where the resulting polynomial of the $3^{rd}$ order has one real root, and implies a threshold value for the satisfaction of the inequality $r > 0.6122... > \frac{1}{3}$; so that a money-maximizer will always choose $D$ at $t = 2$ when $r < \frac{1}{3}$.
- $t = 1$, iff $10 \leq (1 - r) + r[4(1 - r) + r[9(1 - r) + r[25r + 16(1 - r)]]]$; where the resulting polynomial of $4^{th}$ order has one real root, and implies a threshold value for the satisfaction of the inequality $r > 0.933... > \frac{1}{3}$; so that a money-maximizer will always choose $D$ at $t = 1$ when $r < \frac{1}{3}$.

• Assuming that $r \geq \frac{1}{3}$, and upon reaching information set $I_C$, a money-maximizer will prefer action $C$ to action $D$ if ordered at $t = 3, 2, 1$ because the payoff from choosing $D$ at $t = 3, 2, 1$ equals to 14, 11, 10, respectively, and is lower than the expected payoff from choosing $C$, equal to $25r + 16(1 - r) \geq 19$ for $r \geq \frac{1}{3}$.

Hence, the information on the order of move available in the game $G_S$ gives incentives to the money-maximizing rational players to choose the cooperative action $C$ in the information set $I_C$ if they believe that the population consists of sufficiently many reciprocal players. This threshold, implied in the experiment parametrization, is conductive to holding such beliefs5.

Reciprocity hypothesis: In the game $G_S$, reciprocal subjects play the strategy $\sigma = (\sigma_C^1, (\sigma_C^2, \sigma_D^2), ..., (\sigma_C^5, \sigma_D^5)) = (C, (C, D), ...(C, D), (C, D))$, and money-maximizers respond strategically to the presence of reciprocators by playing the strategy, $\sigma = (\sigma_C^1, (\sigma_C^2, \sigma_D^2), ..., (\sigma_C^5, \sigma_D^5)) = (C, (C, D), ..., (C, D), (D, D)).$

5In experimental studies, the propensity to reciprocate positively is frequently observed among participants, see e.g. Fischbacher et al. (2001) who find that half of their subject pool uses strategies corresponding to positive reciprocity.
Consequently, we expect that at least some cooperation will be observed in the game $G_S$. This cooperation will be driven by the presence of reciprocators, expressing their preferences for (positive) reciprocity when asked to choose an action in the information set $I_C$. This cooperation will also be driven by money-maximizers, with strategic incentives to sustain cooperation in the presence of reciprocators.

The presence and belief in reciprocity has thus impact on the extent of cooperation in the game $G_S$. Does the presence of reciprocators also affect behavior in the game $G_N$? Reciprocal players will simply follow their preferences, and therefore play strategy $(C, D)$ in the game $G_N$, just as they would reciprocate in the game $G_S$. So, the main question is whether the money-maximizing subjects are affected by the presence of reciprocators when choosing which of the two equilibria to play. Reciprocators use the strategy $(C, D)$ in the game $G_N$ with probability 1. This alleviates the equilibrium selection problem in the game $G_N$ in the sense that the number of the players coordinating between the cooperative and the uncooperative equilibrium decreases from the number of all players of the game to the number of the money-maximizers. The equilibrium selection problem disappears only if a strategic money-maximizing player believes that all other subjects are reciprocal - an unlikely situation. The equilibrium selection problem remains relevant in the presence of reciprocators as soon as at least one other player in the game is believed to be a money-maximizer, seeking to choose the payoff-maximizing strategy in a coordination game with other money-maximizing player(s).

In short, the presence of reciprocators alleviates, but does not remove the coordination problem faced by the money-maximizers in the game $G_N$. At the same time, the presence of reciprocators in the game $G_S$ generates incentives to choose action $C$ in the information set $I_C$ for the money-maximizers with beliefs in sufficiently many reciprocators in the population.

In the light of the discussion above, we argue that the impact of imposing the information structure of the game $G_N$ in a sequential prisoner's dilemma game on the players' ability to cooperate is not necessarily positive. For one, rational money-maximizing players face an equilibrium selection problem in the game $G_N$, also when accounting for the presence for some reciprocators. Second, removing information on the order of
Table 1: Session Table.

<table>
<thead>
<tr>
<th>Session</th>
<th>Treatment</th>
<th>Number of participants</th>
<th>Rounds 1 - 10</th>
<th>Rounds 11-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1 T^s</td>
<td>15</td>
<td>G_N</td>
<td>G_S</td>
<td></td>
</tr>
<tr>
<td>S2 T^s</td>
<td>20</td>
<td>G_N</td>
<td>G_S</td>
<td></td>
</tr>
<tr>
<td>S3 T^s</td>
<td>20</td>
<td>G_N</td>
<td>G_S</td>
<td></td>
</tr>
<tr>
<td>S4 T^s</td>
<td>20</td>
<td>G_S</td>
<td>G_N</td>
<td></td>
</tr>
<tr>
<td>S5 T^s</td>
<td>20</td>
<td>G_S</td>
<td>G_N</td>
<td></td>
</tr>
</tbody>
</table>

moves available in the game $G_S$, and transforming it into the information structure of the game $G_N$, negatively affects both strategic and nonstrategic incentives to cooperate. The money-maximizers lack the strategic incentives to sustain the cooperation in the game $G_N$ because they lack the ability to signal that an information set $I_C$ has been reached in an order of move higher than 1, but they have strategic incentives to cooperate if they believe sufficiently many reciprocators populate the game $G_S$. And, reciprocators in the game $G_N$ lack the information on the extent of the previous cooperation, which would give them nonstrategic, preference-driven incentives to cooperate. Such information is available in the game $G_S$.

In the following section, we address the extent of cooperation and impact of reciprocity in both games, $G_N$ and $G_S$, using our experimental data. Ultimately, we ask which of the two information structures - of the game $G_N$ or the game $G_S$ - is empirically revealed as more suitable for sustaining cooperation in the N-person prisoner’s dilemma game.

### 3 Experiment design and analysis

We report data on 95 student participants. The experiments took place in the CentERlab at Tilburg University, The Netherlands, and were computerized using the software z-Tree (Fischbacher, 2007). Each session lasted about 1.5 hours and subjects earned 3 Euro participation fee plus on average 9 Euro.

In the experiment, subjects participated in two tasks, each consisting of 10 rounds of the sequential-move prisoner’s dilemma game. We randomly re-matched groups after each round. At the beginning of an experimental session, we first read instructions for

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6Instructions, computer screenshots, and software are available from the authors upon request.
<table>
<thead>
<tr>
<th>Number of others choosing C</th>
<th>If I choose ...</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>... C</td>
</tr>
<tr>
<td>0</td>
<td>1</td>
</tr>
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<td>4</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 2: Payoff Table.

Task 1 (students knew that there is also Task 2 but were not informed its content until it started). Then, students answered a written test with understanding questions. After checking these for correctness, we run Task 1. We then repeated the same sequence of events for Task 2. In the experiment, we implemented two sequential-move prisoner's dilemma games, $G_N$ and $G_S$. In each of them, five subjects were randomly assigned the order of move, and sequentially prompted to choose action in the game. The information structure varied in these two games: in the game $G_N$, the information structure defined in Nishihara (1997) was used; in the game $G_S$, the information structure was extended by informing the players on the order in which they move\(^7\). Besides this difference, the games were kept the same. For example, a subject in each game was only informed on the information set he/she reached in the moment of move, $I_C$ or $I_D$. The payoff function was presented in the form of a table, see Table 2.\(^8\)

We used two experimental treatments, $T_{SN}$ and $T_{NS}$, reversing the order in which the games were played and controlling thus for the order/learning effects. In the treatment $T_{SN}$, Task 1 was game $G_S$, while Task 2 was the game $G_N$. In the treatment $T_{NS}$, Task 1 was the game $G_N$, and Task 2 was the game $G_S$.

We start analyzing our data by summarizing the action choices in both games, and

\(^7\)In order to disguise the order of move of a player in the game $G_N$, we used a sequence of screens in which subjects were asked to click on the screen using their mouse, but only some of these screens were identified as "Decision Screens" and represented a decision in a given round of the game. Moreover, we never announced the start of a new round, so that when a subject was asked to make a decision, an unknown number of other subjects could have already made decisions before this subject. Based on our post-experiment debriefing with the students, we believe that we managed to achieve our goal to implement a game with an unknown order of moves.

\(^8\)The experiment exchange rate was 1 point=4 Eurocents. Subjects were paid for all decisions they made in the experiment.
discussing the individual subject strategies. We then support our findings by a regression analysis. To start with, we present Figure 1 with the information on the average occurrence of the cooperative action C in the game $G_S$ and $G_N$ over time. This figure motivates further discussion, as cooperation seems to be more frequent, and to unravel less over time, in the game $G_S$ than in the game $G_N$. Let us discuss the data in a more detail, though.

The information on the occurrence of the cooperative action C in both games, per treatment and per information set can be found in Table 3. Based on this data, we observe that: (i) subjects condition the choice of action C on the information set: controlling for the treatment and the game, choosing action C is always more likely in the information set $I_C$ than in the information set $I_D$. This suggests that the action C choices are more than mere errors. And, (ii) within a treatment, subjects are more likely to choose action C upon reaching the information set C when they do have information on the order in which they move, in the game $G_S$, than under the information structure of the game $G_N$. One puzzling observation in our data at the first sight is the difference in the levels of cooperation across the treatments, see Table 3. In any information set, subjects are observed to cooperate more frequently in the treatment $T_{NS}$ than in the treatment $T_{SN}$.
In both treatments, however, more cooperation in the information set $I_C$ is found in the game $G_S$ than in the game $G_N$. The level difference of cooperation seems therefore to be merely a sampling effect, due to the number of observations we have. Can we support this suggestion?

Indeed, more light can be shed on the differences in the level of cooperation across treatments by looking more closely at the behavior in the game $G_S$. In the reciprocity hypothesis, we argued that cooperation will decrease abruptly at the end of a game, because strategic money-maximizers have no incentives to cooperate when ordered as the last. Only the reciprocators choose action $C$ in the information set $I_C$ when ordered as last in the game $G_S$. Indeed, the cooperation decreases for the players ordered in the second half of the game, see Figure 2.\(^9\) But, cooperation rates remain strictly positive in the last order of move in the treatment $T_{NS}$, while they are equal to zero in the treatment $T_{SN}$. This supports the idea that subjects sampled for the treatment $T_{NS}$ were more likely to be conditionally cooperative, and willing to cooperate also in the last order of move, when all strategic incentives to cooperate were foregone. Note that the sampling effect does not prevent us from evaluating the willingness of the subjects to cooperate in either of the game - by controlling for the treatment. We do that in the regression analysis presented later in this section.

Returning back to the Table 3, conditioning of the action $C$ choice on the reached information set resembles the use of trigger strategies, which could sustain the coopera-

\(^9\)The maximal willingness to cooperate is not obtained at the first order of move, as predicted by the reciprocity hypothesis, but between the order of move 3 and 4. The initial increase of cooperation is thus not correctly captured by the reciprocity hypothesis. Lacking to predict the non-linear pattern of cooperation rates, visible in Figure 2, is likely due to the simple form of static expectations we postulated for the money-maximizers. If, for example, money-maximizers, upon observing others’ cooperation in the early moves in the game, update their beliefs about the presence of reciprocators, then cooperation rates could increase first, before dropping down.

<table>
<thead>
<tr>
<th>Game</th>
<th>Treatment</th>
<th>Information set $I_D$</th>
<th>Information set $I_C$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$G_S$</td>
<td>$T_{SN}$</td>
<td>16/295 (5%)</td>
<td>25/105 (24%)</td>
</tr>
<tr>
<td>$G_N$</td>
<td>$T_{SN}$</td>
<td>6/304 (2%)</td>
<td>16/96 (17%)</td>
</tr>
<tr>
<td>$G_S$</td>
<td>$T_{NS}$</td>
<td>36/362 (10%)</td>
<td>86/188 (46%)</td>
</tr>
<tr>
<td>$G_N$</td>
<td>$T_{NS}$</td>
<td>30/405 (7%)</td>
<td>35/145 (24%)</td>
</tr>
</tbody>
</table>

Table 3: Frequency of the Action C Choices per Information Set, Game and Treatment.
Figure 2: Frequency of Action C Choices in the Game $G_N$ per Order of Move and per Treatment.

tive play in the game $G_N$ in theory. However, cooperation - and trigger strategies - occur not only in the game $G_N$, but also in the game $G_S$, where rational cooperation is excluded by backwards induction. This finding is systematic. On an individual level, across treatments, 34/95 (36%) of subjects use consistently trigger strategies in the game $G_S$, and 24/95 (25%) in the game $G_N$. In other words - conditioning the action chosen on the information set reached is not found in the game $G_N$ only, but is also applied by numerous subjects in the game $G_S$.

Having found cooperation - and trigger-type of strategies - both in the game $G_N$ and $G_S$, we proceed now to evaluate first the way in which rational subjects choose between the cooperative and the uncooperative equilibrium in the game $G_N$. Afterwards, we address the comparison of the two informations structures, of the game $G_N$ and $G_S$, with respect to their ability to support cooperation.

In order to test the rational equilibrium selection hypothesis conservatively, we focus for now only on the subset of the subjects who reveal to be pure money-maximizers in the game $G_S$. These are the subjects whose behavior can be captured by the model proposed by Nishihara (1997). When identifying such subjects, we use the fact they are bound to always choose action D in the game $G_S$, independent of the order of move and/or actions
chosen by other players of the game. In our dataset, these are 17/55 (31%) and 18/40 (45%) subjects in the treatment $T_{NS}$ and $T_{SN}$, respectively (see Table 4). We now ask whether these rational subjects select the cooperative equilibrium proposed by Nishihara (1997) in the game $G_N$. Disappointingly, only very few do so: 2/17 (12%) and 3/18 (17%) in treatment $T_{NS}$ and $T_{SN}$, respectively; the remaining subjects always play D in the game $G_N$. This leads us to the conclusion that the rational money-maximizing subjects do not play the payoff dominant equilibrium, allowing us to reject the equilibrium selection hypothesis.

Observation  (Equilibrium selection) Among subjects reveling to maximize their material payoffs (in the game $G_S$), only very few, less than 15%, choose the cooperative and payoff dominant equilibrium of the game $G_N$.

We now proceed by investigating the behavior of the remaining players, those who choose action C (on at least on some occasions) in the game $G_S$. Among them, we actually find a higher number of individuals cooperating in the information set $I_C$ more frequently in the game $G_S$ than in the game $G_N$ (see Table 5, where this is the case for 23/55 (42%) vs. 17/55 (31%) of the subjects in the treatment $T_{NS}$, and for 15/40 (38%) vs. 10/40 (25%) of the subjects in the treatment $T_{SN}$). Notably, a nonegligible fraction of subjects (in particular 15/55 (27%), and 14/40 (35%) subjects in the treatment $T_{NS}$ and $T_{SN}$, respectively, see Table 4) always choose D in the game $G_N$, but they do cooperate at least on some occasions in the game $G_S$. The game with the known order of moves $G_S$ seems to support cooperation in a higher number of individuals than the game $G_N$.

These individual strategy findings can be complemented by a regression analysis in the form of a logit model explaining the action $C$ choices, while accounting for individual random effects, see Table 6.\textsuperscript{10} Based on it, the action $C$ is significantly more likely to

\textsuperscript{10}Treatment $T_{NS}$ equals 1 for the the treatment $T_{NS}$ and equals 0 otherwise; $I_C$ equals 1 in the
be chosen in the information set $I_C$ in both games, $G_N$ and $G_S$ (see the positive and significant coefficient on the variable indicating the information set $I_C$ in the columns 2 and 4, respectively). This supports the significance of the trigger strategy in both games, not only in the game $G_N$.\footnote{The treatment variable $T_{NS}$ is significant in both games as well (see columns 2-3 and 4-5), with more unconditional cooperation found in the game implemented as Task 1 (see the positive and significant effect on the variable Treatment $T_{NS}$ for the data from the game $G_N$, in column 2, and the negative and significant coefficient on the variable Treatment $T_{NS}$ for the data from the game $G_S$). This reveals that subjects are more willing to cooperate, independent of the information set reached, when they play a game as the first in the experiment. Subjects obviously have to learn to play the games, and they make more mistakes by cooperating unconditionally at the start of the experiment, than later in the experiment.}

Most importantly, though, we can use the regression analysis to evaluate the overall contribution of the information set-up of the game $G_N$ to the cooperation in the sequential prisoner’s dilemma game. We find the the interaction term $I_C \times GameG_N$ in column 6, in a regression merging the data on both games, to be negative and significant. After controlling for possible treatment effects, sampling effects and the period of interaction, the conclusion of the regression analysis is thus not favorable to the plan to create cooperation opportunities by transforming the game $G_S$ into the game $G_N$. The cooperation in the information set $I_C$ is less likely in the game $G_N$ than in the game $G_S$, implying that the potential increase in cooperation due the information removed from the game $G_S$, by creating information structure of the game $G_N$, as suggested by the theory, is empirically not supported.

\textbf{Observation (Reciprocity)} Reciprocity is frequent and affects behavior in the game $G_S$. (i)

On an individual level, between one quarter and one third of subjects use consistently trigger-like strategies, conditioning on the informations et reached in a game.
Table 6: Logit Model Explaining Action C Choices.

(ii) Upon reaching the information set \( I_C \), subjects cooperate more frequently in the game \( G_S \), with the know order of move, than in the game \( G_N \), without the information on the order of move.

In summary, both individual strategies and regression analysis show that cooperation is more likely in the sequential prisoner’s dilemma game with a known order of moves \( G_S \), than in the game with possible rational cooperation \( G_N \). There may be environments which promote coordination more than the one used in our experimental design, and hence it is an open question whether rational subjects can learn to coordinate on the payoff dominant equilibrium in the game \( G_N \). At the same time, the information structure of the game \( G_S \) proves to have advantages related to the strategic behavior in the presence of reciprocity.

4 Conclusions

Cooperation in the sequential prisoner’s dilemma game can be obtained in a Nash equilibrium if the game satisfies the payoff and information conditions identified by Nishihara (1997). The order of moves in the game is assumed to be randomly assigned, and not known to the players. This construction, together with a restriction on the payoff function,
guarantees that trigger strategies constitute a Nash equilibrium. We implement a game satisfying the conditions identified by Nishihara (1997) in an experimental laboratory, and observe the behavior of subjects in this game, as well as in a game with the same payoff function and with the known order of moves. We analyze the data separately for subjects who reveal to behave as rational payoff-maximizers, as well as for subjects who reveal to hold preferences and/or believe in preferences for reciprocity in others. In short, the first point we make in this paper is on a behavioral validation of the rational equilibrium selection of the cooperative equilibrium in the game introduced by Nishihara (1997). The second point we make can be seen as a behavioral robustness check, allowing for some uncertainty about others' preferences being fully captured by the material payoffs of the game.

On the first subset of our data, we find that cooperation is scarce in the game with the unknown order of moves $G_N$ among the rational players. Hence, we reject the payoff dominance as the equilibrium selection criterion. This conclusion raises questions about the behavioral relevance of the cooperative equilibrium in the game $G_N$. A future research is needed to study environments supporting the coordination on the payoff dominant equilibrium among the rational, money-maximizing players (e.g. communication). On the second subset of our data, when analyzing the behavior in the game with the known order of moves, we often observe the use of the trigger strategies. Subjects seem to behave consistent with positive reciprocity and/or belief in positive reciprocity.

Finally, the overall effect is not favorable for the innovative solution to the social dilemma problem proposed in Nishihara (1997). The cooperation rates are higher in the sequential prisoners' dilemma game with the known order of moves than in the game without the known order of moves. We consider our experimental observations instructive in that a theoretically interesting result with respect to the possibility of cooperation among rational players is in contrast with the actual play of the game, when the game outcomes implementing the game do not represent players' preferences, but only the economic outcomes from the game.
References


