Università Commerciale Luigi Bocconi

Department of Decision Sciences **Department of Economics**

Economic Theory, Decision Theory and Experimental Economics Seminar

Peer Discipline and the Strength of Organizations

David Levine

Washington University, St. Louis

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12:30pm Room 3-E4-SR03 Via Rontgen 1 Milano

Abstract

Groups do not act as individuals - as Olson and other have emphasized: incentives within groups matter. Here we study internal group discipline through a model of costly peer punishment. We investigate schemes that minimize the cost to a collusive group of enforcing particular actions, and use the model to determine how the strength of the group - as measured, for example, by ability to raise funds to provide a public good - depends on the size of the group, the size of the prize, and the heterogeneity of the group. We find that voluntary provisions models do not scale properly, while the peer discipline model does. The peer discipline model predicts that for a fixed size of an auctioned (rival) prize the strength of the group is single-peaked - increasing when the group is small then declining. The strength of the group also declines with heterogeneity. When groups compete for transfers which one group may have to make in favor of another we find that small groups have an advantage over larger ones.

Department of Decision Sciences
Department of Economics

Via Röntgen 1 - 20136Milano

Tel. 02 5836.5632
Fax 02 5836.5630

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