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Nagore Iriberry, Jaromir Kovarik and Bernardo Garcia-  
Pola

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Centre for Economic Policy Research  
33 Great Sutton Street, London EC1V 0DX, UK  
Tel: +44 (0)20 7183 8801  
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# NON-EQUILIBRIUM PLAY IN CENTIPEDE GAMES

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Nagore Iriberry - nagore.iriberri@gmail.com  
*University of the Basque Country and CEPR*

Jaromir Kovarik - jaromir.kovarik@ehu.eus  
*University of the Basque Country*

Bernardo Garcia-Pola - bernardo.garcia@ehu.eus  
*University of the Basque Country*

# Non-Equilibrium Play in Centipede Games\*

Bernardo García-Pola<sup>†</sup> Nagore Iriberry<sup>†‡</sup> Jaromír Kovářik<sup>†§</sup>

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## Abstract

Centipede games represent a classic example of a strategic situation, where the equilibrium prediction is at odds with human behavior. This study is explicitly designed to discriminate among the proposed explanations for initial responses in Centipede games. Using many different Centipede games, our approach determines endogenously whether one or more explanations are empirically relevant. We find that non-equilibrium behavior is too heterogeneous to be explained by a single model. However, most non-equilibrium choices can be fully explained by level- $k$  thinking and quantal response equilibrium but each model for different subjects. Preference-based models play a negligible role in explaining non-equilibrium play.

*Keywords:* Centipede games, bounded rationality, common knowledge of rationality, quantal response equilibrium, level- $k$  model, experiments, mixture-of-types models.

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<sup>†</sup>Dpto. Fundamentos del Análisis Económico I and Bridge, University of the Basque Country UPV-EHU, Av. Lehendakari Aguirre 83, 48015 Bilbao, Spain (bernardo.garciapola@gmail.com, nagore.iriberri@gmail.com, jaromir.kovarik@ehu.eus).

<sup>‡</sup>IKERBASQUE, Basque Foundation for Research.

<sup>§</sup>CERGE-EI, a joint workplace of Charles University in Prague and the Economics Institute of the Czech Academy of Sciences, Politických vězňů 7, 111 21 Prague, Czech Republic.

# 1 Introduction

The Centipede Game (CG, hereafter), proposed by Rosenthal (1981), represents one of the classic contradictions in game theory (Goeree and Holt, 2001) as the unique subgame perfect Nash equilibrium (*SPNE*, henceforth) is at odds with both intuition and human behavior. This has drawn considerable attention of economists. In this game, two agents decide alternately between two actions, take or pass, for several rounds and the game ends whenever a player takes. The payoff from taking in a particular round satisfies two conditions: (i) it is lower than the payoff from taking in any of the following rounds, which gives incentives to pass; but (ii) it exceeds the payoff received if the player passes and the opponent ends the game in the next round, providing incentives to stop the game right away. This payoff structure reflects a tension between payoff maximization and sequential reasoning, shared with prominent strategic environments such as the repeated Prisoner’s dilemma (see Dal Bó and Fréchet, 2011, Friedman and Oprea, 2012, Bigoni et al., 2015, or Embrey et al., 2017, for recent advances). Such a tension characterizes other strategic repeated environments of high economic interest including Cournot competition, public goods provision, or the tragedy of the commons.

Due to its payoff structure, the CG has a unique *SPNE*, in which a utility-maximizing selfish individual stops in every decision node. Experimental tests of the unique prediction in CG confirm game theorists’ intuition, as very few experimental subjects follow it (McKelvey and Palfrey, 1992; Fey et al., 1996; Nagel and Tang, 1998; Rappaport et al., 2003; Bornstein et al., 2004).<sup>1</sup> Despite the experimental work on CGs, economists still do not have a clear understanding of the underlying behavioral model that makes human play diverge from equilibrium play. This is the central question addressed in this paper.

Many explanations have been proposed for the behavior of people not following the unique *SPNE* in the CG, which we broadly classify into three categories: preference-based explanations, bounded rationality, and models that relax the common knowledge of rationality. The preference-based approach argues that people do not maximize their own payoff, as typically assumed in *SPNE*. Rather, they may be altruistic, seeking Pareto efficiency, or inequity averse (e.g. McKelvey and Palfrey, 1992).<sup>2</sup>

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<sup>1</sup>Section 2 reviews the theoretical and empirical literature in more detail.

<sup>2</sup>Levitt et al. (2011) raise the possibility that their (relatively sophisticated) subjects view the

An alternative explanation is that people are not fully but *boundedly* rational. For instance, people might make mistakes when calculating or playing the optimal response to others’ expected behavior. To model this idea in CGs, Fey et al. (1996) apply the *quantal response equilibrium* (*QRE*, henceforth; McKelvey and Palfrey, 1995), in which players play mutually consistent strategies but may make mistakes in their choice of actions. These mistakes have the feature that costlier mistakes are less likely to occur.

Finally, observe that even a selfish, fully rational utility-maximizer should not stop in the first round if she expects her opponent not to stop in the following round. In fact, the best response to the typical observed behavior is to pass in the initial rounds. Hence, people may have non-equilibrium beliefs and/or expect others to have them. Two particular models relax the assumption of common knowledge of rationality. Initially, McKelvey and Palfrey (1992) proposed a Bayesian equilibrium approach, also known as “gang of four”, in which people play against a mixture of fully rational players and a small fraction of “irrational” individuals who pass in every node. A rational decision-maker thus has incomplete information regarding the rationality of her opponent. Level- $k$  thinking model also relaxes the assumption of equilibrium beliefs: decision-makers apply a simpler rule, forming their expectations about the behavior of others, and best respond to their beliefs (Kawagoe and Takizawa, 2012; Ho and Su, 2013).

We therefore consider four classes of model. We test the ability of *SPNE* to explain individuals’ behavior as a default model.<sup>3</sup> Alternatively, we consider three other behavioral models. First, we allow for models based on preference-based explanations, such as altruistic types. Second, to model bounded rationality we consider *QRE* that relaxes the perfect rationality of individuals, allowing them to make mistakes but keeping equilibrium beliefs and common knowledge of (ir)rationality. Finally, we test the ability of both the “gang of four” model and level- $k$  thinking to explain non-equilibrium behavior, two models that maintain the rationality assumption but relax the common knowledge of rationality.<sup>4</sup>

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game as a game of cooperation, suggesting that non-selfish preferences might be important.

<sup>3</sup>We use the strategy method in our experiment. Therefore, we actually test the unique Nash equilibrium in the reduced normal-form game. Nevertheless, since both concepts are behaviorally equivalent in CGs, we abuse the terminology and call it *SPNE* throughout to preserve the link with the CG literature. See Section 3.2.1 for a more detailed discussion.

<sup>4</sup>We also consider alternative specifications of these classes of models, as well as alternative models, as discussed in Section 2 and Section 3.2. We selected a particular set of models for their theoretical

The purpose of this study is to discriminate between *SPNE* and the other three types of alternative explanations of *initial behavior* in CGs, combining experimental and econometric techniques. The experimental design and the econometric technique are precisely the two features that differentiate our paper from existing work on CGs.

With respect to the experimental design, we show that the two commonly used CGs, the exponentially increasing-sum variant of McKelvey and Palfrey (1992) and the constant-sum version by Fey et al. (1996), are not well suited to discriminating between the four types of explanations. We, therefore, start from a formal definition and design multiple CGs, some of which depart substantially from the CGs used in the literature (see Figure 5 for our 16 CGs). We use three criteria to classify our CGs: they differ in the evolution of the sum of payoffs along the different nodes: increasing-sum, constant-sum, decreasing-sum, and variable-sum CGs; we have games that start with an egalitarian division of payoffs and games that start with a non-egalitarian division; we vary the incentives to pass and the incentives to stop the game right away. The main criterion in designing our CGs was the greatest possible separation of predictions of the candidate models, with the objective of identifying the behavioral motives underlying the non-equilibrium choices.

Observe that our focus on initial responses in CGs induces us to provide no feedback concerning others' behavior during the whole experiment, which determines the use of strategy method or "cold play", in contrast to the main papers studying behavior in CGs. There are two potential problems with eliciting behavior in "hot play" when identifying the behavioral model behind the initial behavior in CGs. First, hot play makes researchers observe the complete plan of action only of subjects who stop earlier in extensive-form games. In other words, hot play in CGs endogenously determines the behavioral types that the researcher observes.<sup>5</sup> However, one needs to observe the complete plan of action of each subject in several games to be able to identify the underlying behavioral model a particular individual follows. Second, hot play necessarily conveys feedback from game to game, inducing learning across different CGs as suggested by previous evidence (see Section 2). Therefore, we use the strategy method or cold play, whereby subjects simultaneously submit their strategies game

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and empirical interest, focusing on those that have been proposed in the literature.

<sup>5</sup>For example, people following *SPNE* stop immediately in each CG. Therefore, analyzing solely the actual play of matched subjects (rather than complete plan of behavior of subjects) might result in an overestimation of the proportion of *SPNE* in the population.

by game without receiving any feedback until all decisions have been made. In CGs, hot and cold play have been shown to produce similar behavioral patterns (Nagel and Tang, 1998, and Kawagoe and Takizawa, 2012).<sup>6</sup> We also find no differences between the behavior of our subjects and the initial behavior reported in other studies (see Appendix A). Therefore, we have no reasons to believe that our results are affected by the cold play method. Moreover, note that since our subjects cannot observe any past behavior of any other individual in any game and their behavior is not different from behavior using hot play, reputation-based explanations of non-equilibrium behavior can be ruled out in our data.

With respect to the econometric techniques, we apply finite mixture-of-types models. Game theory has made considerable progress in incorporating the findings of experimental and behavioral economics but behavioral game theory currently offers a large number of behavioral approaches, often resting on very different assumptions and generating very different predictions. Even though most studies compare different behavioral models on a pairwise basis, the focus has recently shifted toward coexistence and competition between behavioral models (see Camerer and Harless, 1994, and Costa-Gomes et al., 2001, for early references). We take this latter approach, exploiting finite mixture models. These models offer two distinctive features. First, in contrast to the comparison of models on a pairwise basis, they are explicitly designed to account for heterogeneity, where multiple candidate models are simultaneously allowed. If, for instance, a small fraction of individuals behave according to *SPNE* while most people are, say, boundedly rational or if, alternatively, one explanation is enough to explain individual behavior, this would be detected endogenously at the estimation stage. Second and more importantly, this technique makes the alternative behavioral models “compete” for space, because whether a model is empirically relevant, and to what extent, is determined endogenously and at the cost of the alternative models.

We find that subjects’ behavior is too heterogeneous for one model to explain why people do not adhere to *SPNE* in CGs. Consistently with previous findings, only about 10% of individuals take in the very first node in most of the 16 games. More importantly, the behavior of the majority is explained by level- $k$  thinking model and by

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<sup>6</sup>Brandts and Charness (2011) review the experimental literature on all two-person sequential games and conclude that the strategy method does not generally distort subjects’ behavior compared to direct responses.



*QRE*. Each of these two models explains the behavior of different subjects. Preference-based models play a negligible role in explaining non-equilibrium choices in our data. In line with the conclusions of Fey et al. (1996) and McKelvey and Palfrey (1998), our analysis corroborates that the “gang of four” model contributes little to explaining non-equilibrium behavior in CGs. In addition to the fitting exercise, we also show that the estimated mixture-of-types model, composed of a small fraction of *SPNE* and a large proportion of level- $k$  and *QRE* types, is also successful at predicting behavior across different CGs. As a result, researchers should account for behavioral heterogeneity in CGs not only for a better explanation of behavior as advocated by this paper but also for a better prediction of choices in out-of-sample games.

These results have three implications that go beyond the CG. First, several recent papers have stressed the ability of strategic uncertainty to organize the average behavior in games that reflect the tension between maximizing payoffs and sequential rationality (Dal Bó and Frechette, 2011; Calford and Oprea, 2017; Embrey et al., 2017; Healy, 2017). However, although these studies acknowledge important individual heterogeneity, they do not ask whether the heterogeneity can be described by a single behavioral model or whether it requires a mixture of them. We propose combining experimental techniques, individual-level data on initial responses, and mixture-of-types model to both qualify and quantify this heterogeneity. The advantage of CGs, as opposed to e.g. the repeated Prisoner’s dilemma, is that the “stage” payoffs can be manipulated systematically such that different theories predict different behavior, the core of our design. Our results show that bounded rationality and the failure of common knowledge of rationality are particularly relevant and complementary factors,<sup>7</sup> while preference-based explanations play a minor role.<sup>8</sup>

As a second contribution, many attribute non-equilibrium behavior in many extensive-form games to their dynamic nature and the failure of backward induction, whereas our study again shows that it may constitute a more general non-equilibrium phenomenon.<sup>9</sup> Our subjects follow *SPNE*-like behavior in CGs that lowers incentives to

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<sup>7</sup>In the repeated Prisoner’s dilemma, Cooper et al. (1996) also show that multiple models are necessary to explain the behavior. However, they only focus on two explanations and the Prisoner’s dilemma. This prevents them from being able to target other theories, some of which result relevant in our data once considered.

<sup>8</sup>Embrey et al. (2017) also conclude that the existence of cooperative types has only limited effect on the extent of cooperation, the equivalent of passing in CGs.

<sup>9</sup>Backward induction, a fundamental concept in game theory, is also frequently at odds with human

pass (constant- and decreasing-sum CGs), while they systematically violate *SPNE*'s prediction in games designed to facilitate passing. More importantly, virtually all non-equilibrium behavior is best explained by *QRE* and level- $k$ , two behavioral models, which have been successful in explaining behavior in static environments. These findings suggest that similar motivations might lie behind non-equilibrium behavior in both simultaneous-move and extensive-form games.

Third, we contribute to the debate regarding whether level- $k$  or *QRE* fits behavioral data better. Many studies have found evidence that supports the former, while others have found evidence that supports the latter. The main reason is that the literature has found it difficult to separate both models (see the discussion in Crawford et al., 2013). Our data reveal that, rather than competitors, both models complement each other by explaining the behavior of different subjects.

The paper is organized as follows. Section 2 reviews the literature. Section 3 sets out the theoretical framework. Section 4 introduces our experimental design. Section 5 presents the main estimation results, as well as a battery of robustness tests including out-of-sample prediction test. Section 6 concludes. The Appendices A and B contain additional material and the experimental instructions.

## 2 Literature Review

CG was first proposed by Rosenthal (1981) to point out that backward induction may be counterintuitive, predicting that human subjects would rarely adhere to the *SPNE* prediction in this particular game. The original game has 10 decision nodes and the payoff sums in each node increase linearly from the initial node to the final one.

Megiddo (1986) and Aumann (1988) introduce a shorter CG with an exponentially increasing-sum of payoffs in each node, called “Share or quit”. The name *centipede* is attributed to Binmore (1987), who designed a 100-node version. Aumann (1992, 1995, 1998) was the first to discuss the implications of rationality and common knowledge of rationality in CGs. He shows that although rationality alone does not imply *SPNE*,

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behavior (e.g. Reny, 1988; Aumann, 1992; Binmore et al., 2002; Johnson et al., 2002). However, although CG is commonly associated with the paradox of backward induction in the literature, Nagel and Tang (1998) and Kawagoe and Takizawa (2012) show that human behavior also deviates from *SPNE* when presented in normal form and Levitt et al. (2011) show that following backward induction in other games does not make people follow it in CGs.

common knowledge of rationality does. The epistemic approach to explaining the paradox using perfectly rational agents has been followed by others (e.g. Reny, 1992, 1993, Ben-Porath, 1997).

McKelvey and Palfrey (1992) pioneered the experimental analysis of the CG. They apply two modest variants of Aumann’s game, with four and six decision nodes, where the payoffs increase exponentially. Figure 1 contains the six-node CG. They focus on exponentially increasing-sum versions to reinforce the conflict between *SPNE* and the intuition. Their results indeed confirm that *SPNE* is a bad prediction for behavior in the game: only 37 out of 662 games ended in the first terminal node as predicted by *SPNE*. The majority of matched subjects ended somewhere in the middle-late nodes of the game and 23 out of 662 matches reached the final decision node (see Figure 3 for their distribution of reached terminal nodes in the first round in the game from Figure 1). They also observe little learning over repetitions of the game. They explain their findings using the “gang of four” model (Kreps and Wilson, 1982; Kreps et al., 1982). In particular, by assuming the existence (and common knowledge of this existence) of 5% of subjects who pass in every node, and by combining them with the possibility of noise in both behavior and beliefs.<sup>10</sup>

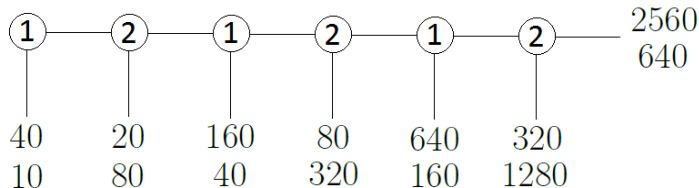


Figure 1: Exponentially Increasing-sum CG in McKelvey and Palfrey (1992).

To test the hypothesis of altruism further, Fey et al. (1996) introduce a constant-sum version of CG, shown in Figure 2. Since the sum of the payoffs of both players in each node is the same, their and our altruistic type should be indifferent about where

<sup>10</sup>This altruistic behavior, as noted by the authors, can be rationalized by assuming that altruistic subjects derive utility not only from their own payoffs but also from the payoffs of their opponents. In particular, in the exponentially increasing-sum CG, if the weight on their opponent’s payoff is 2/9 and the weight on own payoff is 7/9, altruistic subjects will always pass. The equilibrium type in McKelvey and Palfrey (1992) resembles our *SPNE* with noise (which differs from *QRE*) and differences in beliefs refer to beliefs concerning whether others are altruistic or not. The exception is their altruistic type, which is identical to our altruists. Zauner (1999) uses the original data on McKelvey and Palfrey (1992) to fit a model where agents know their own preferences though they may be uncertain about the preferences of the other agents.

to stop. Less than half of the matched subjects play according to *SPNE* initially (see Figure 3 for the first-round behavior) even though people learn to play closer to *SPNE* with experience. Fey et al. (1996) find no evidence of altruistic types (individuals who “Always Pass”) and reject the explanation based on “gang of four” provided in McKelvey and Palfrey (1992), and propose two models: an “Always Take” behavioral model, which can be rationalized by *SPNE*, *Maxmin* or *Egalitarian* (or inequity aversion, a model we consider among the social preferences), and *QRE*. They find evidence for *QRE*. Later, McKelvey and Palfrey (1998) extend *QRE* to extensive-form games, named agent-*QRE* (*AQRE*, henceforth) and apply it to the exponentially increasing-sum CG. They again reject the explanation based on “gang of four” and conclude that *AQRE* fits individual behavior better than *QRE*. We corroborate the conclusions of both Fey et al. (1996) and McKelvey and Palfrey (1998) regarding “gang of four” (see Section 5.3.3) and consider both *QRE* and *AQRE* (see Section 3.2).

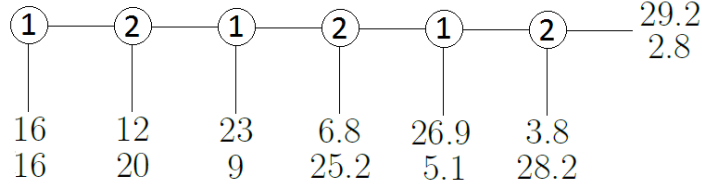


Figure 2: Constant-sum CG in Fey et al. (1996).

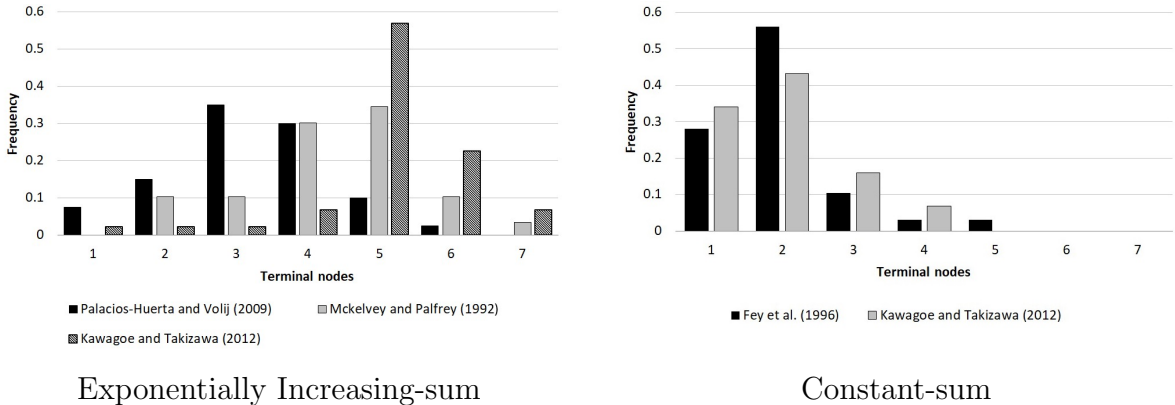


Figure 3: Initial Behavior in Different Studies

Nagel and Tang (1998) test behavior using a 12-node CG. Unlike in previous research, subjects in their experiment played a normal-form CG. In particular, they propose a *reduced* normal-form, which collapses all strategies that coincide in the

first stopping node into one behavioral plan. In such a reduced normal-form each row/column represents the node, at which Player 1/2 stops the game if the node is reached. Subjects decide simultaneously in their experiment, but to make their approach as close as possible to a sequential play subjects only receive information about the final outcome of the game. That is, they never learn the strategy chosen by the opponent if they stop earlier. Interestingly, their results are very similar to those of McKelvey and Palfrey (1992), where the majority of subjects did not choose to take immediately and most ended the game in the middle-late nodes.<sup>11</sup> Their findings illustrate that non-equilibrium behavior in CGs cannot be attributed solely to the failure of backward induction but probably represents a more general non-equilibrium behavioral phenomenon.

In order to test for the relevance of common knowledge of rationality as opposed to other explanations, Palacios-Huerta and Volij (2009) manipulate the rationality of subjects and the beliefs about the rationality of opponents, combining students and chess players. Chess players are not only familiar with backward induction but are also *known* to be good at inductive reasoning. Using the exponentially increasing-sum CG in Figure 1, they find that chess players behave much closer to *SPNE* than students. More importantly, they find that chess players play closer to *SPNE* when matched with other chess players rather than students. Figure 3 shows the initial behavior of their students-against-students treatment, which is in line with the original findings by McKelvey and Palfrey (1992).

Later, Levitt et al. (2011) find that chess players who play *SPNE* in other games fail to do so in CGs, once again disconnecting the puzzling behavior in this game from backward-induction arguments. They comment on the possibility that their subjects may view the CG as a game of cooperation between the two players.

More recently, Kawagoe and Takizawa (2012) provide an analysis of the ability of level- $k$  models vs. *AQRE* to explain behavior in CGs using new experimental data and the data from McKelvey and Palfrey (1992), Fey et al. (1996), Nagel and Tang (1998), and Rapoport et al. (2003). See Figure 3 for the behavior in the extensive-form CGs from Figures 1 and 2 in Kawagoe and Takizawa (2012). Their pairwise comparison

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<sup>11</sup>They also observe that people react differently depending on the outcome of the previous round. If they finish one game before the opponent, they tend to pass more in the next one; the opposite happens if the opponent stops first. Since we focus on the initial play here, this plays no role in our study.

concludes that level- $k$  thinking model fits the data better than the *AQRE* model with altruistic players in the increasing-sum CG, while there is no difference between the models in the constant-sum CG. Related to this paper, Ho and Su (2013) show that level- $k$  thinking model explains the behavior in McKelvey and Palfrey (1992) well.

Our contribution over and above that of these two studies is that we allow multiple behavioral models simultaneously (not only *QRE* or only level- $k$  thinking model) and that these alternative models compete with one another in explaining behavior across multiple CGs (not only the most common CGs as in Kawagoe and Takizawa, 2012, or only the exponentially increasing-sum CG as in Ho and Su, 2013, where we show that these two types of CGs are not enough to separate candidate theories). We show that different CGs are crucial in explaining non-equilibrium behavior in these games.

In a recent contribution, Healy (2017) carries out an epistemic experiment, eliciting utilities, first and second order beliefs, and actions in three variations of an increasing-sum CG. He finds important heterogeneity in both utilities and beliefs and rationalizes non-equilibrium behavior using an incomplete information setting similar in spirit to the original explanation proposed by McKelvey and Palfrey (1992).<sup>12</sup> In contrast to our study, Healy (2017) finds support for social preferences. Nevertheless, he only applies increasing-sum CGs that seem to exacerbate the role of altruism as pointed out by Fey et al. (1996).

Although *QRE* models bounded rationality via mistakes, there are other theories of bounded rationality that can explain behavior inconsistent with *SPNE* in CGs. Jehiel (2005) proposes an analogy-based equilibrium model in which agents have imperfect perception of the game. In particular, the decision nodes of other players are bundled into one as long as the set of actions in those nodes is the same (even if the payoff consequences differ across the decision nodes), forming a unique belief for all the bundled nodes. Depending on which nodes are bundled together, passing in CGs can be supported in equilibrium if the payoffs increase fast enough as the game develops. Another approach assumes that people have limited foresight. One example is Mantovani (2014), who proposes a model in which individuals only consider a limited number of subsequent decision nodes and truncate the CG afterwards. He shows that passing in CGs can be rationalized as long as the incentives for passing are high enough and the

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<sup>12</sup>In line with Dal Bó and Frechette (2011) and Embrey et al. (2017), Healy (2017) employs the term strategic uncertainty, rather than the failure of common knowledge of rationality.

final node is not included in the limited horizon of individuals. We do not include these alternative bounded rationality models in our main analysis.<sup>13</sup>

### 3 Theoretical Framework

#### 3.1 Definition of the Centipede Game

The CG is a two-player extensive-form game of perfect information, in which the players make decisions in alternating order. We denote by *Player 1* the player deciding in the odd decision nodes, while *Player 2* refers to the player who decides in the even decision nodes. The game can vary in length and we denote the number of decision nodes by  $R$ . In each decision node one player decides between two actions: *Take*, which ends the game immediately, and *Pass*, which leads to the next node, giving the turn to *Take* or *Pass* to the other player. Figure 4 shows an example of a CG with  $R = 6$ .

The game differs from similar extensive-form games in the conditions on the payoff structure. Let  $x_{ir}$  represent the payoff that the deciding player  $i$  receives if she takes in a decision node  $r$  and let  $x_{jr}$  be the payoff of the non-deciding player  $j \neq i$  in  $r$ . Then, in any CG, for the decision node for player  $i$ :

$$x_{ir} < x_{ir+2} \text{ for } \forall r \text{ such that } 1 \leq r \leq R - 1 \tag{1}$$

$$x_{jr} < x_{jr-1} \text{ for } \forall r \text{ such that } 2 \leq r \leq R + 1 \tag{2}$$

Expressions (1) and (2) summarize the trade-off that people face in CGs. The first inequality represents the incentive to pass and move on in the game, since the payoff from choosing *Take* in the next decision node where  $i$  decides is higher than in the current one. By contrast, the second inequality illustrates the incentive to take before

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<sup>13</sup>Empirically testing Jehiel’s (2005) model is not straightforward with our design based on a strategic method to identify initial responses. See e.g. Danz et al. (2016) for such a test. Regarding Mantovani (2014), we re-estimate a variation of our main model which includes three additional behavioral types: players who consider two, three, and four subsequent decision nodes when deciding whether to take or pass. The predicted behavior of the types that consider two and three subsequent decision nodes is very similar to that of *L1* and *L2*, but when all models are jointly considered in one mixture-of-types model the shares of *L1* and *L2* remain virtually unaffected while we find no support for these two limited-foresight types. Hence, level- $k$  explains individual behavior better in our data. If foresight is increased to four, such players behave as *SPNE* in almost all our games. Therefore, for their theoretical and empirical interest, we focus on *SPNE* and opt for *QRE* as a representation of bounded rationality.

the opponent does.

We refer to the sum of player' payoffs in a particular decision node  $r$  by  $S_r$ :

$$S_r = x_{ir} + x_{jr} \quad (3)$$

Conditions (1) and (2) have some implications for the design of different variation of CGs. First,  $x_{ir} > x_{ir-1}$ ; that is, the payoff in a decision node is higher than in the previous non-decision node. Second,  $S_r < x_{ir+2} + x_{jr-1}$  in each  $r$  player  $i$  decides in. In words, the sum of payoffs in each decision node is lower than the sum of the payoff resulting from action *Take* by  $i$  in the player's next decision node and the payoff that the opponent "sacrifices" by passing in the previous decision node. Third, although the literature has only used CGs with increasing- or constant-sum evolution of payoffs over the different decision nodes, it is easy to show that (1) and (2) allow for any evolution of  $S_r$  as the game progresses. Hence, there are decreasing-sum versions and even CGs with variable-sum which show non-monotonic patterns, disregarded in the previous literature (see Figure 5 for examples; Figures A1 and A2 in the Appendix A provide an alternative visualization of the same CGs).

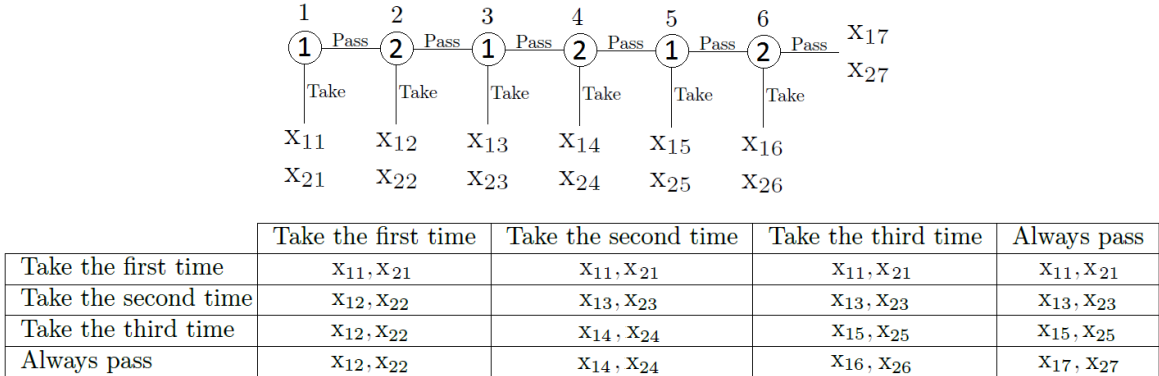


Figure 4: Extensive-form (top) and associated reduced normal-form (bottom) representation of a general six-node CG.

In this study, we focus on CGs with six decision nodes. The upper part of Figure 4 displays a general version of the six-node CG in extensive form, and the lower part presents the corresponding *reduced* normal-form representation.<sup>14</sup> In this reduced

<sup>14</sup>Note that the figure does not contain all the strategy combinations. Rather, each behavioral plan in Figure 4 represents all strategies that take for the first time in the same decision node. Nagel



normal-form, each player has the following four pure strategies: *Take the first time*, *Take the second time*, *Take the third time*, and *Always pass*. A player selecting the first option finishes the game the first time she plays. That is, Player 1 would finish the game in node 1 in the upper part of Figure 4. Analogously, Player 2 selecting this option would finish in node 2. *Take the second time* corresponds to pass once and ending the game the second time that the player has a chance to play. *Take the third time* consists of passing twice and choosing *Take* the third time. Finally, *Always pass* entails choosing always *Pass* and reaching the payoffs in the very last node.

## 3.2 Candidate Explanations of Behavior in Centipede Games

We introduce each behavioral type and describe its predictions in our reduced normal-form CGs. In some cases, one model is indifferent between different strategies, in which case we assume that people select uniformly among them. For the predictions of each behavioral model in the CGs used in this experimental study, see Tables 3 and 4 below. Figures A3 and A4 in the Appendix A show these same predictions using the game trees of the different games.

### 3.2.1 Nash Equilibrium in the Reduced Normal-form, *SPNE*

Given the payoff structure of the CG described in Section 3.1, the *SPNE* type should always choose *Take* in every decision node. In the reduced normal-form game, there only exist one Nash equilibrium in pure strategies, where both players choose *Take the first time*. Since this behavior is consistent with the *SPNE*, we abuse the terminology and refer to this Nash Equilibrium as *SPNE* throughout the paper. This prediction is unique and the same for all types of CGs.<sup>15</sup>

### 3.2.2 Altruism, $A$ and $A(\gamma)$

In contrast to the standard selfish preferences, individuals might care about other players' payoffs in an altruistic way. We allow for two alternative models of altruism.

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and Tang (1998) experimentally test the same reduced normal-form, instead of the full normal-form representation. The latter leads to an enormous strategy space where many strategy profiles have the same payoffs. For a more thorough discussion, see Footnote 1 in Nagel and Tang (1998).

<sup>15</sup>All pure strategies in the reduced normal-form CG are rationalizable. Using the extensive-form variation of rationalizability, only the *SPNE* is rationalizable.

In Section 5.3.2, we present two sets of results, one for each of the two definitions of altruism.

First, following Costa-Gomes et al. (2001), we assume that altruistic individuals ( $A$ , henceforth) weight their own payoffs as much as the payoffs of the opponent, such that they are maximizing the sum of payoffs,  $S_r$ , independently of how that sum will be split between the two players. Also, despite taking into account opponents' payoffs,  $A$  is non-strategic in that she chooses the strategy that leads to the maximum  $S_r$  out of all possible strategies and expects the same behavior from the opponent. Following this definition, the behavior of  $A$  is determined by the progression of the payoff sum in the CG.  $A$  chooses *Always pass* in increasing-sum CGs, *Takes the first time* in decreasing-sum CGs, and is indifferent between the four strategies in constant-sum CGs. The stopping node of  $A$  can be manipulated to lie anywhere in the variable-sum CGs.

Second, following how altruism has been modeled in economics and keeping such type fully strategic, we assume that altruistic individuals' utility is given by their own payoff and a weight ( $\gamma$ ) on the payoff of the opponent, where  $0 \leq \gamma \leq 1$ . Such a type assumes that her opponent is of the same type and selects the Nash equilibrium in the reduced normal-form games expressed in terms of their utilities (rather than payoffs). We refer to this model by  $A(\gamma)$ . Note that for low values of  $\gamma$  this altruistic type is close to  $SPNE$ , with  $A(0) = SPNE$ .<sup>16</sup>

### 3.2.3 Pareto Efficiency, $PE$

Pareto efficiency is another classic concept in economics. A payoff profile in a node is Pareto efficient if it is not possible to make a player better off without making the opponent worse off. For the sake of simplicity, we again assume that this type is non-strategic. In the reduced normal-form,  $PE$  type selects the strategy that yields a Pareto efficient payoff profile.

For instance, only the two payoff profiles in the last decision node are Pareto efficient in exponentially increasing-sum CGs. Hence,  $PE$ -Player 1 chooses *Always pass*, and  $PE$  Player 2 randomizes between *Take in the third* and *Always pass*. In fact it follows directly from the payoff structure of the game, described in Section 3.1, that the two payoff profiles in the last decision node are Pareto efficient in *any* CG. Moreover, the

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<sup>16</sup>In fact,  $A(\gamma) = SPNE$  for roughly  $\gamma < 0.12$  in our experiment; for assessing the separation between  $SPNE$  and  $A(\gamma)$ , see Table A2.

number of Pareto efficient outcomes and where they are located in the sequence of the game can vary substantially. By (1), every outcome can potentially be Pareto efficient. This is indeed the case in all the constant-sum and decreasing-sum CGs.

### 3.2.4 Inequity Aversion, $IA$ and $IA(\rho, \sigma)$

Rather than caring about efficiency or others' payoffs directly, some people might care about payoff inequalities. Similar to altruism, we allow for two types of inequity aversion preferences and present two sets of results in Section 5.3.2, one for each of the two definitions of inequity aversion.

First, analogously to  $A$ , we assume that  $IA$  minimizes the difference in payoffs between the two players in a non-strategic way.<sup>17</sup>  $IA$  first calculates the absolute values of the differences between her payoffs and her opponent's payoffs for each strategy combination. Then, she takes the action (or actions if indifferent across more than one action) that leads to the minimum payoff difference.

For instance, consider  $IA$ -Player 1 in the in CG in Figure 1. The action *Take the first time* generates a difference of 30 independently of the choice made by Player 2, *Take the second time* yields the differences of 60, 120, 120, and 120 for the four respective strategies of Player 2, *Take the third time* leads to 60, 240, 240 and 240, and finally *Always pass* 60, 240, 960, and 1920. An  $IA$ -player computes the smallest differences (30 in the first case vs. 60 in the remaining cases) and selects the strategy corresponding to the minimum, i.e. *Take the first time*. The decision-making process of an inequity-averse Player 2 is characterized analogously.

Second, following more closely Fehr and Schmidt (1999) and Bolton and Ockenfels (2000) and keeping the type fully strategic,  $IA(\rho, \sigma)$  individuals' utility is given by their own payoff minus the difference between the two individuals' payoffs. When the opponent is getting a lower payoff than oneself, the utility is given by own payoff minus the difference between own payoff and the opponent's payoff, weighted by  $0 \leq \rho \leq 1$ , and when the opponent is getting a higher payoff than oneself, the utility is given by own payoff minus the difference between the opponent's payoff and own payoff, weighted by  $0 \leq \sigma \leq 1$ . Other than that,  $IA(\rho, \sigma)$  is modeled as  $A(\gamma)$ . If  $\rho$  and  $\sigma$  are

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<sup>17</sup>We follow the equivalent assumption as in the definition of  $A$  and assume that  $IA$  implicitly believes that other players are also  $IA$ .

small,  $IA(\rho, \sigma)$  behaves very similarly to  $SPNE$ , with  $IA(0, 0) = SPNE$ .<sup>18</sup>

### 3.2.5 Optimistic, $O$

We also include a non-strategic type with naïvely optimistic beliefs (as in Costa-Gomes et al., 2001). These optimists ( $O$ ) make *maximax* decisions, maximizing their maximum payoff over the other players’ strategies. Such an  $O$ -type player assumes that each strategy yields the maximum payoff over all possible actions of the opponent and selects the action corresponding to the maximal payoff from among those.<sup>19</sup>

For instance, in the game shown in Figure 1  $O$  calculates the maximum payoff from each of her strategies (40 from *Take the first time*, 160 from *Take the second time*, 640 from *Take the third time*, and 2560 from *Always pass*) and selects the maximum of these maxima (leading to *Always pass*). In any CG, an  $O$ -Player 1 always passes, while an  $O$ -Player 2 always chooses *Take the third time*. Notice that this type is often closely related to  $A$  and  $PE$ , but their predictions differ enough in our games to be able to include them all in the analysis (see Table 2 in Section 4 and Tables 3 and 4 in Section 5.1 for particular predictions in the CGs used in our design).

### 3.2.6 Level- $k$ thinking model, $L1$ , $L2$ , $L3$

This section focuses on level- $k$  as a representation of the failure of common knowledge of rationality. Fey et al. (1996) and McKelvey and Palfrey (1998) reject “gang of four” as a relevant explanation of behavior in CGs and Section 5.3.3 shows that the conclusions drawn from our benchmark models are robust to considering “gang of four.”

Level- $k$  thinking has proved successful in explaining non-equilibrium behavior in many experiments (see Crawford et al. (2013) for a review). Level- $k$  types ( $Lk$ ) represent a rational strategic type with non-equilibrium beliefs about others’ behavior, in that they best respond to beliefs but they have a simplified non-equilibrium model of how other individuals behave. This rule is defined in a hierarchical way, such that an  $Lk$  type believes that others behave as  $Lk-1$  and best-responds to these beliefs.

<sup>18</sup>In our experiment,  $IA(\rho, \sigma) = SPNE$  for any  $\sigma$  if  $\rho \leq 0.20$ ; for assessing the separation between  $SPNE$  and  $IA(\rho, \sigma)$ , see Table A3.

<sup>19</sup>One can analogously define a pessimistic type,  $P$ , who makes *maximin* decisions. However, this behavioral type is almost indistinguishable from  $SPNE$  in CGs. By definition, type  $P$  never separates from  $SPNE$  for Player 1 and shows only minor separation for Player 2, so we do not include it in our analysis.

The hierarchy is specified on the basis of a seed type  $L0$ . We set the  $L0$  player as randomizing uniformly between the four available strategies in the reduced normal-form CG.<sup>20</sup> That is,  $L0$  selects each strategy with probability 0.25. We assume that this type only exists in the minds of higher types.  $L1$  responds optimally to the behavior of  $L0$ ,<sup>21</sup>  $L2$  assumes that the opponents are  $L1$  and responds optimally to their optimal behavior, and finally  $L3$  believes that others behave as  $L2$  and best-responds to these beliefs. Since the empirical evidence reports that such lower-level types are the most relevant in explaining human behavior (Crawford et al., 2013), we do not include higher levels in our analysis.

Given the relative complexity of level- $k$ , we illustrate the behavior of the different levels on the CG shown in Figure 1. As mentioned above,  $L0$  chooses each strategy in the normal-form with probability 0.25, independently of whether she is Player 1 or 2. Considering this behavior of  $L0$ ,  $L1$  first computes the expected payoff from the four available strategies and selects the strategy that maximizes the expected payoff. For Player 1 in Figure 1, the four strategies yield expected payoffs of 40, 125, 345, and 745, respectively. Consequently,  $L1$ -Player 1 selects *Always pass*.  $L1$ -Player 2 and all the other  $Lk$  with  $k > 1$  are defined analogously. In general,  $Lk$  types exhibit no particular pattern of behavior in CGs. Thus, they have to be specified on a game-by-game basis (see Tables 3 and 4 in Section 5.1 for different predicted behavior by level- $k$ 's in the CGs used in our experiment).

### 3.2.7 Quantal Response Equilibrium, *QRE*

Lastly, we consider the logistic specification of McKelvey and Palfrey's (1995) *QRE*. In words, the *QRE* approach assumes that people, rather than being perfect profit maximizers, make mistakes and that more costly mistakes are less likely to occur. Moreover, in equilibrium, people also assume that others make mistakes that depend on the costs of each mistake. Each strategy is played with a positive probability, with *QRE* being a fixed point on these noisy best-response distributions. In the logistic

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<sup>20</sup>We also tested other  $L0$  specifications. For example, following Kawagoe and Takizawa (2012), we also consider a dynamic version of level- $k$ , in which  $L0$  uniformly randomizes in each decision node. The simultaneous version of level- $k$  shows a better fit. We have also considered  $L0$  an altruist, who maximizes the sum of payoffs,  $S_r$ , as well as an optimist. We find little evidence in favor of these alternative specifications in our data.

<sup>21</sup> $L1$  is sometimes called *Naïve*. See e.g. Costa-Gomes et al. (2001).

specification, parameter  $\lambda$  reflects the degree of rationality such that if  $\lambda = 0$  the behavior is purely random while as  $\lambda \rightarrow \infty$  *QRE* converges to a Nash equilibrium. The evidence suggests that small  $\lambda$ 's typically fit the data from individuals' initial behavior best (McKelvey and Palfrey, 1995). To compute the *QRE*'s for our games, we used Gambit software (McKelvey et al., 2014).<sup>22</sup>

It is worth stressing that *QRE* differs from  $\epsilon$ -equilibrium, noisy *SPNE*, and noisy *Lk*.  $\epsilon$ -equilibrium is defined as a profile of strategies that *approximately* satisfies the condition of Nash equilibrium (Radner, 1980). In CGs, the main difference between  $\epsilon$ -equilibrium and *QRE* is that the former expands the set of Nash equilibria as  $\epsilon$  increases while the latter moves equilibrium play away from *Take the first time*.<sup>23</sup> As for noisy *SPNE*, such players make mistakes while best-responding to error-free equilibrium behavior of others, whereas *QRE* individuals make mistakes and assume that others also make mistakes. Hence, both *QRE* and *SPNE* with noise embody the idea of bounded rationality (as opposed to level- $k$  that reflects the idea of non-equilibrium beliefs and therefore the absence of common knowledge of rationality). Moreover, the mistakes in  $\epsilon$ -equilibrium and noisy *SPNE* do not necessarily possess any economic structure because the errors are specified at the estimation stage, rather than being part of the model as in *QRE*. More importantly, even though the three types predict similar behavior in many cases, they are far enough apart in our CGs. See Table 2 in Section 4 for an evaluation of the separation between these behavioral types', and Tables 3 and 4 in Section 5.1 for predicted behavior in the different CGs used in our experiment.

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<sup>22</sup>Following McKelvey and Palfrey (1998) and Kawagoe and Takizawa (2012), we have also considered *AQRE*, the *QRE* applied to extensive form games, but, as it occurs for the dynamic version of level- $k$ , simultaneous *QRE* shows a better fit.

<sup>23</sup>We have included  $\epsilon$ -equilibrium as an additional behavioral type in our mixture-of-types model and we find little evidence for its relevance. We estimate very low frequency for this type and the estimated  $\epsilon$  is so high that it includes almost any strategy, resembling a purely random type in almost all our CGs.

## 4 Experimental Design

### 4.1 Experimental Procedures

A total of 151 participants were recruited using the ORSEE recruiting system (Greiner, 2015) in four sessions in May 2015.<sup>24</sup> We ensured that no subject had participated in any similar experiment in the past. The sessions were conducted in the Laboratory of Experimental Analysis (Bilbao Labean; <http://www.bilbaolabean.com>) at the University of the Basque Country using z-Tree software (Fischbacher, 2007).

Subjects were given instructions explaining three examples of CGs (different from those used in the main experiment), how they could make their choices, the matching procedure, and the payment strategy. The instructions were read aloud. Subjects were allowed to ask any questions they might have during the whole instruction process. Afterwards, they had to answer several control questions on the computer screen to be able to proceed. An English translation of the instructions can be found in the Appendix B.

At the beginning of the experiment, the subjects were randomly assigned to a role, which they kept during the whole experiment. There were two possible roles: Player 1 and Player 2. To avoid any possible associations from being the first vs. second or number 1 vs. 2, subjects playing as Player 1 were labeled as *red* and those playing as Player 2 were called *blue*. Each subject played 16 different CGs one by one with no feedback between games. The games were played in a random order, which was the same for all subjects (see footnote 25). Subjects made their choices game by game. They were never allowed to leave a game without making a decision and get back to it later, and they never knew which games they would face in later stages. There was no time constraint and the participants were not obliged to wait for others while making their choices in the 16 games. Our design minimizes reputation concerns and learning as far as possible. Hence, the choice in each game reflects the initial play and each subject can be treated as an independent observation.

The CGs were displayed in extensive-form on the screens, as shown in the instructions in the Appendix B. The behavior was elicited using the strategy-method. More precisely, the branches in the game were generally displayed in black but the branches

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<sup>24</sup>Given the matching mechanism described below, we did not need the number of participants to be even.

corresponding to each players' actual choices were displayed in red for Players 1 and in blue for Players 2. Depending on the player, they had to click on a square white box that stated either "Stop here" or "Never stop". To ensure that subjects thought enough about their choices, once they had made their decision of whether to stop at a node or never stop by clicking on the corresponding box, they did not leave the screen immediately. Rather, the chosen option changed color to red or blue depending on the player and they were allowed to change their choice as many times as they wished, simply by clicking on a different box. In such a case, the previously chosen option would turn back to white and the newly chosen action would change color to either red or blue. To proceed to another game in the sequence, the subjects had to confirm their decision by clicking on an "OK" button in the bottom right corner of the screen. They were only allowed to proceed once they had confirmed. In terms of strategies, for each game and each player type, participants faced four different options to click on: *Take the first time*, *Take the second time*, *Take the third time*, and *Always pass*, without knowing the strategy chosen by the other player. The appendix provides some examples of how the different stages were displayed to the subjects in the experiment.

When all subjects had submitted their choices in the 16 CGs, three games were randomly selected for payment for each subject. Hence, different participants were paid for different games. The procedure, which was carefully explained to the subjects in the instructions, was as follows. The computer randomly selected three games for each subject and three different random opponents from the whole session, one for each of these three games. This means that the same participant may have served as an opponent for more than one other participant. Nevertheless, being chosen as an opponent does not have any payoff consequence. To determine the payoff of a subject from each selected game, her behavior in each game was matched to the behavior of the randomly chosen opponent for this game. At the end of the experiment, the subjects were privately paid the sum of the payoffs from the three games selected, plus a 3 Euro show-up fee. The average payment was 17.50 Euro, with a standard deviation of 16.93.

At the end of the experiment, the participants were invited to fill in a questionnaire eliciting information in a non-incentivized way concerning their demographic variables, cognitive ability, social and risk preferences.



## 4.2 Experimental Games and Predictions of Behavioral Types

Figure 5 displays the 16 different games, CG 1 - CG 16, that each subject faced in our experiment.<sup>25</sup> Figures A1 and A2 in the Appendix A provide an alternative graphical visualization of these games.

For predictions of behavioral types, see Tables 3 and 4, where each behavioral model's prescribed choice is shown for each game and player role.<sup>26</sup> For instance, in any of the 16 CGs, both players should stop immediately if they play according to *SPNE*. Hence, *SPNE* is written for both player roles below the choice of *Take the first time*. In a few instances, one model is shown to be indifferent between two or more strategies. In such case, one behavioral model appears in columns corresponding to different strategies. For example, in any of the 16 CGs, the last two strategies for Player 2, *Take the third time* and *Always pass*, include the *PE* label. That means that a *PE*-Player 2 is indifferent between the two choices *Take the third time* and *Always pass*.<sup>27</sup> To make it easier to read the predictions of different behavioral types, we show the *QRE*'s predictions in a separate row. By definition, *QRE* predicts playing each strategy with a positive probability and the probabilities depend on the parameter  $\lambda$ . For the sake of illustration, we show the predicted frequencies of *QRE* for one particular value of the noise parameter  $\lambda = 0.38$ . Similarly, we show the predictions for  $A(\gamma = 0.22)$  and  $IA(\rho = 0.08, \sigma = 0.55)$ . The values of the parameters were chosen once the estimations had been made (see below). Most information regarding these parametric types below will also be reported for their estimated values.

We now explain our games in more detail and comment on the prediction as regards behavioral models. First, since many studies apply the exponentially increasing-sum CG from McKelvey and Palfrey (1992) shown in Figure 1 and the constant-sum from Fey et al. (1996) shown in Figure 2, we also include them in our analysis. The former is labeled as CG 1 and the latter as CG 9 in Figure 5. Including these two games enables us to compare the behavior of our subjects with other studies that have analyzed these games using different experimental procedures. Appendix A shows that the behavior in

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<sup>25</sup>For the sake of illustration, we display them in a particular order. During the experiment, subjects played the 16 games in the following randomly generated order: CG 6, CG 13, CG 16, CG 1, CG 8, CG 12, CG 3, CG 14, CG 7, CG 10, CG 2, CG 4, CG 11, CG 9, CG 15, CG 5.

<sup>26</sup>The same information is displayed differently in Figures A3 and A4 in the Appendix A.

<sup>27</sup>Since some types may lead to such indifferences more often than others, one may ask whether these types may not be artificially favored. Our below empirical approach controls carefully for such a possibility.

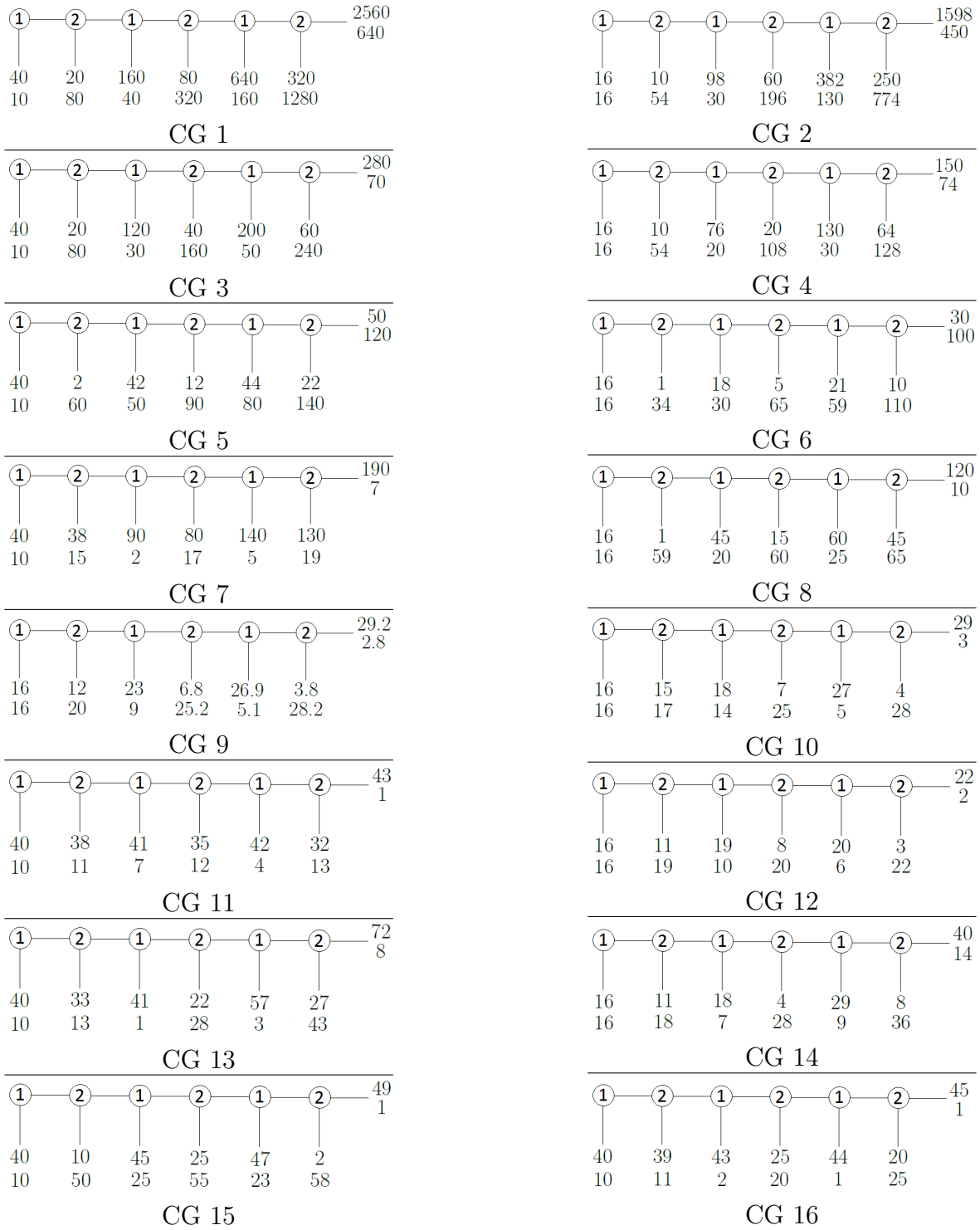


Figure 5: The 16 CGs Used in the Experiment.

these two games in our experiment replicates the patterns of behavior in other studies. When we look at the behavioral predictions of the different models in CG 1 and CG 9 in Tables 3 and 4, it is important to observe that using only these two games is not helpful for separating many candidate explanations. The predictions of most relevant models are highly concentrated in the middle or late nodes in CG 1, while the same models' predict stopping at in the initial nodes in CG 9. This makes it hard to discriminate between many models solely on the basis of behavior in these two games.

Second, as clearly shown by Figures A1 and A2 in the Appendix A, the payoff from ending the game at the very first decision node is characterized by an unequal split (40,10) in half of the games (CGs 1, 3, 5, 7, 11, 13, 15, 16), while the initial-node payoffs are the same for both players (16,16) in the other half (CGs 2, 4, 6, 8, 9, 10, 12, 14). The standard constant-sum CG of Fey et al. (1996) is the only CG in the literature that starts with an equal split of payoffs. As discussed above, this may make *IA*-players look like *SPNE* and one cannot distinguish between the two types on the basis of a single game. We therefore vary the payoff distribution across player roles in the initial node.

Third and more importantly, the games can be classified based on the evolution of the sum of payoffs,  $S_r$ , as the game progresses. This is again clearly visible in Figures A1 and A2 in the Appendix A. There are four types: 8 increasing-sum games (CG 1–8), 2 constant-sum (CG 9 – 10), 2 decreasing-sum (CG 11 – 12) and 4 variable-sum (CG 13 – 16). The constant- and decreasing-sum CGs provide little room for discrimination, since most behavioral types predict stopping at early nodes in these games. Therefore, they only represent 25% of the games. The increasing- and variable-sum games provide the most room for separation of the alternatives, and therefore account for 75% of the games. For example, the (not necessarily exponentially) increasing-sum CGs are very successful at separating between *Lk* and *QRE*. In particular, CG 3 separates *L1* and *QRE* for both player roles (see also Figures A3 and A4 in the Appendix A). By contrast, exponentially increasing-sum CGs are not good at separating *A* from any *Lk*. CG 5 – 8 offer important differences in the payoff path for each player, separating radically different levels of strategic reasoning. Interestingly, the variable-sum CGs allow for an arbitrary placement of the predicted stopping probabilities for many behavioral models and we design these games to exploit this feature. For instance,  $S_r$  decreases initially and increases afterwards in CG 13 and 14, with the very final payoff being greater than

the initial one ( $S_1 < S_7$ ). These two games are good at separating well the predictions of most of our alternatives (see Tables 3 and 4 and Figures A3 and A4 in the Appendix A). Additionally, CG 13 and 14 are the only games, in which only *PE* predicts stopping at the initial and final nodes. CG 16 is the only situation, where *A* takes earlier than our *Lk* types.

Finally, our games vary in the incentives to move forward and those to stop the game. To give an example, CG 10 has a constant-sum of payoffs in all nodes (as well as CG 9), but is designed such that *Lk* and *QRE* predict stopping as late as possible. In some games, the incentives to stop or not are different for the two player roles. For instance, CG 5 and 6 provide incentives for Player 1 to stop the game early and incentives for Player 2 to proceed. By contrast, CG 7 and 8 have the opposite incentive structure for the two roles. Figures A1 and A2 in the Appendix A also helps visualizing the differences in incentives by different player roles.

### 4.3 Prediction Precision of Different Behavioral Models and Their Separation

We start by assessing how precise the behavioral models are in their predictions. In a particular game and for a particular player role, if a behavioral model assigns probability one to a single strategy we say that the model is the most precise as it can only accommodate one out of four strategies, while if it assigns a positive probability to any strategy we say that the model is the least precise as it can accommodate any behavior.

Table 1 summarizes the average imprecision across our 16 CGs for each of the behavioral models, separated according to player roles. Each number is the average proportion of strategies predicted to be chosen with a positive probability by the corresponding model. For instance, 0.25 means that *SPNE* makes a single prediction (out of four) in all games for both players, whereas the 1's corresponding to *QRE* reflect the idea that all strategies are predicted to be played with a positive probability by this model.

The table reveals that *SPNE*, *O*, and *L1* make the most precise predictions on average. Naturally, *QRE* exhibits the lowest precision, followed by *PE* and *IA*. Although higher imprecision gives a higher probability of success *a priori*, overall compliance

rates in Section 5.2 and our estimates in Section 5.3.2 show that this is not necessarily the case. Moreover, the proposed likelihood specification in our estimation method penalizes such imprecisions; see Section 5.3.1.

Table 1: Average Imprecision in Prediction of Different Models across the 16 CGs

Behavioral Type	Player 1	Player 2
<i>SPNE</i>	0.25	0.25
$A(\gamma=.22)$	0.30	0.31
$IA(\rho=.08, \sigma=.55)$	0.25	0.34
<i>A</i>	0.41	0.48
<i>IA</i>	0.31	0.80
<i>PE</i>	0.53	0.70
<i>O</i>	0.25	0.25
<i>L1</i>	0.25	0.25
<i>L2</i>	0.25	0.39
<i>L3</i>	0.25	0.55
$QRE(\lambda=.38)$	1.00	1.00

*Notes:* The table reports the average imprecision of each behavioral type over the 16 CGs for Players 1 and 2, separately. The maximum precision is 0.25 when a model predicts one unique strategy in each CG; the minimum precision is 1 when a model assigns positive probability to each strategy in all the CGs.

Since the main criterion applied in the selection of the 16 games was to separate the predictions of the candidate explanations as far as possible, we now discuss and assess how suitable the selected CGs are for discriminating between the alternative theories.

To this aim, Table 2 shows the fractions of decisions (out of a total of 32 for both player roles) in which two different behavioral types predict different strategies.<sup>28</sup> The first row and column list the different behavioral types. A particular cell  $ij$  reports the separation value between the behavioral type in row  $i$  and the behavioral type in column  $j$ . The minimum value in a cell is 0 whenever two behavioral types make the same predictions in all the 32 decisions, while the maximum value would be 1 if two types differ in their predictions in all the 16 games for both player roles.<sup>29</sup>

<sup>28</sup>Table A4 in the Appendix A provides an alternative view of separability, which we refer to as separation in payoffs. It leads to the same conclusion as Table 2, so we relegate the table and its discussion into the Appendix A.

<sup>29</sup>The separation is computed as follows. When two types make a single prediction in a CG, it is either different or the same, and yields a separation value of 1 or 0, respectively. When at least one type predicts a distribution over more than one action in a CG, define  $P = (P_1, P_2, P_3, P_4)$  for one type and  $P'$  analogously for the second. Let  $n = |j : P_j > 0 \vee P'_j > 0|$  be the number of strategies predicted

Note that *QRE* presents some difficulties.<sup>30</sup> To simplify matters, the separation values are thus computed assuming that a *QRE*-type player has a probability one of playing the action with the largest predicted probability given  $\lambda = 0.38$ . Obviously, this simplification is not made in the estimations below; the estimations consider the exact probabilities of each strategy (as reported in Tables 3 and 4).

Table 2: Separation Rates in the Decisions between Different Models

	<i>SPNE</i>	$A(\gamma)$	$IA(\rho, \sigma)$	<i>A</i>	<i>IA</i>	<i>PE</i>	<i>O</i>	<i>L1</i>	<i>L2</i>	<i>L3</i>
<i>SPNE</i>	0.00									
$A(\gamma=.22)$	0.14	0.00								
$IA(\rho=.08, \sigma=.55)$	0.05	0.18	0.00							
<i>A</i>	0.88	0.84	0.86	0.00						
<i>IA</i>	0.58	0.62	0.53	0.72	0.00					
<i>PE</i>	0.87	0.81	0.84	0.28	0.63	0.00				
<i>O</i>	1.00	0.95	0.98	0.61	0.78	0.47	0.00			
<i>L1</i>	0.72	0.68	0.70	0.81	0.78	0.73	0.75	0.00		
<i>L2</i>	0.66	0.61	0.62	0.85	0.73	0.80	0.85	0.60	0.00	
<i>L3</i>	0.55	0.51	0.53	0.78	0.70	0.77	0.95	0.86	0.54	0.00
<i>QRE</i> ( $\lambda=.38$ )	0.33	0.29	0.33	0.88	0.72	0.85	0.97	0.66	0.54	0.52

*Notes:* The table reports average separation rates over the 16 CGs and over the two player roles between the behavioral models listed in the corresponding row and column. The minimum separation is 0 when two models predict the same behavior for both player roles in each CG; the maximum separation is 1 when two behavioral models always predict different behavior.

It can be seen that the majority of the candidate behavioral types considered are separated in at least 50% of decisions in our design and the figures are even larger in most cases. For example, note that the separation between *Lk* and *QRE* is particularly interesting. The literature traditionally finds difficulties in separating these two models, as they prescribe very similar behavior in many games. This is not our case though. Hence, our design enable us to discriminate between these two theories. However, there are few exceptions on which we comment in what follows. *PE* is separated from *O*

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to be played with positive probability by at least one of the two types and  $s = |j : P_j > 0 \wedge P'_j > 0|$  the number of strategies predicted with positive probability by both. Then, the separation value between both types in the CG is  $(n - s)/n$ . For example, if type *i* predicts choosing the actions *Take the first time*, *Take the second time*, *Take the third time*, and *Always pass* with probabilities  $(1/3, 0, 1/3, 1/3)$  and type *j* with probabilities  $(0, 1, 0, 0)$ , the two types are fully separated, leading to the value of 1. If type *j* predicts  $(1/2, 1/2, 0, 0)$  instead, the value is  $3/4$  because *i*'s and *j*'s predictions differ in only three out of four actions predicted by at least one of the model. Finally, if *j* predicts  $(0, 0, 1/2, 1/2)$ , the separation is  $1/3$ .

<sup>30</sup>Since *QRE* assigns positive probability to all strategies, the usual calculation of separability for *QRE* would just reflect the relative imprecision of the predictions of the model that you are comparing *QRE* to.

in slightly less than 50% and from  $A$  in 28%. The table suggests that there might be separation problems between  $SPNE$  and  $QRE$ . Nevertheless, note that separation of  $QRE$  is computed differently from other models and  $SPNE$  always predicts one unique strategy that is often the strategy predicted with the highest probability by  $QRE$ . As a result, the actual separation between these two models is way higher than the 33% reported in Table 2.<sup>31</sup>

The real separability issues arise with  $A(\gamma)$  and  $IA(\rho, \sigma)$  in relation to  $SPNE$  for the estimated values of their parameters. Observe that the behavioral predictions of  $SPNE$  and these two social-preference models are the same in most games and player roles. As shown in Tables 3 and 4,  $SPNE$  and  $IA(\rho = 0.08, \sigma = 0.55)$  are only separated in two decisions (out of 32) whereas  $SPNE$  and  $A(\gamma = 0.22)$  only in six of them (out of 32). Moreover, both  $A(\gamma = 0.22)$  and  $IA(\rho = 0.08, \sigma = 0.55)$  predict multiple strategies in all these cases (but one), one of which often is the same as the one predicted by  $SPNE$  (lowering further the separability). Tables A2 and A3 in the Appendix A evaluate the overall separability of these social-preference types with  $SPNE$ , for different values of their parameters  $\gamma$ ,  $\rho$ , and  $\sigma$ . The tables reveal that both models can be very well separated from  $SPNE$  if their parameters are high and relevant enough. In other words, if these preferences types cared *enough* about the payoff of others (positively for altruism, or positively and negatively depending on the relative position for inequity aversion), then social preferences types are very well separated from  $SPNE$ . That is, such a problem only arises for the estimated values. In other words, the estimated altruistic and inequity-averse types are so similar to selfish preferences that they are behaviorally almost indistinguishable from  $SPNE$ . This will be important for the interpretation of our estimation results.

## 5 Results

We first present an overview of the results of our experiment and the extent of overall compliance with the different behavioral types. Second, we estimate the distribution of types from the experimental data.

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<sup>31</sup>Table A1 in the Appendix A reports the separation values between  $QRE$  and all the other models for different values of  $\lambda$ .

## 5.1 Overview of Results

Tables 3 and 4 provide an overview of the behavior observed in our experiment, while Figures A6 and A7 in Appendix A present the experimental choices of subjects using histograms. In Tables 3 and 4, each row—corresponding to one of the 16 CGs—is divided into two parts, one for each player role. The top number in each cell reports the proportion of subjects in a particular role who chose the corresponding column strategy. In each cell, we additionally list all the behavioral models that predict choosing the corresponding strategy for the corresponding player. Again,  $QRE$  predicts each strategy to be played with a positive probability and we report the  $QRE$  probabilities for  $\lambda = 0.38$ . In the tables if, say,  $0.01_{QRE}$  appears in a cell it means that the strategy of the particular player role should be chosen with probability 1% in the  $QRE$  if  $\lambda = 0.38$ . Similarly, in case of  $A(\gamma)$  and  $IA(\rho, \sigma)$ , the table shows values for  $\gamma = 0.22$ ,  $\rho = 0.08$ , and  $\sigma = 0.55$ .

In the increasing CGs (CG 1 – 8) the modal choices are concentrated between *Take the second time* or *Take the third time* for both player roles. However, there are a few salient exceptions. In CG 5 and 6, the most frequent choices of Players 1 also include *Take the first time* and in CG 7 and 8, Players 2 also commonly play *Take the first time* for similar reasons. Observe that, in these particular games and player roles, the payoffs exhibit lower increasing rates than the rest. These variations prove to be crucial in separating different behavioral types.

In the constant-sum CGs, the modal behavior of Players 1 is *Take the second time*, while the modal strategies of Players 2 consist of *Take the first time* in CG 9 and *Take the second time* in CG 10. In the decreasing-sum CG 11 and 12, both roles mostly select *Take the first time*, although both roles also choose *Take the second time* with non-negligible frequencies in CG 12.

We cannot describe the overall behavior in the variable-sum games well as they differ in important aspects, but the most common choices in these games are *Take the first time* and *Take the second time* for both roles.

Tables 3 and 4 also illustrate how misleading it can be to identify behavioral types on the basis of a single game. For instance, note that 3.95% of Player 1 subjects take at the first decision node in CG 1. This provides little support for  $SPNE$  or  $IA$ , the two theories that predict stopping at the first node. By contrast, the behavior in CG



Table 3: Observed and Predicted Behavior for all Models ( $\gamma = .22$ ,  $\rho = .08$ ,  $\sigma = .55$  and  $\lambda = 0.38$ ): CG 1 – 8.

Games	Player	Take the first time	Take the second time	Take the third time	Always pass
CG 1 (increasing)	1	3.95%	32.89%	40.79%	22.37%
		SPNE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.01_{QRE}$	$0.86_{QRE}$	$0.12_{QRE}$	$0.01_{QRE}$
	2	18.67%	26.67%	50.67%	4.00%
		SPNE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.76_{QRE}$	L3, P, IA $0.21_{QRE}$	L1, L2, PE, O, IA $0.02_{QRE}$	A, PE, IA $0.00_{QRE}$
CG 2 (increasing)	1	2.63%	34.21%	31.58%	32.58%
		SPNE, IA $IA(\rho, \sigma)$ , $0.00_{QRE}$	$A(\gamma)$ , $0.69_{QRE}$	L2, L3 $0.29_{QRE}$	A, PE, L1, O $A(\gamma)$ , $0.02_{QRE}$
	2	8.00%	33.33%	52.00%	6.67%
		SPNE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.00_{QRE}$	L3, IA $0.89_{QRE}$	L1, L2, PE, O, IA $A(\gamma)$ , $0.11_{QRE}$	A, PE, IA $0.01_{QRE}$
CG 3 (increasing)	1	15.79%	57.89%	18.42%	7.89%
		SPNE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.78_{QRE}$	L2, L3 $0.18_{QRE}$	L1 $0.06_{QRE}$	A, PE, O $0.01_{QRE}$
	2	30.67%	49.33%	16.00%	4.00%
		SPNE, L3, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.84_{QRE}$	L1, L2, IA $0.11_{QRE}$	PE, O, IA $0.03_{QRE}$	A, PE, IA $0.02_{QRE}$
CG 4 (increasing)	1	9.21%	64.47%	21.05%	5.26%
		SPNE, IA $IA(\rho, \sigma)$ , $0.39_{QRE}$	L2, L3 $A(\gamma)$ , $0.45_{QRE}$	L1 $0.09_{QRE}$	A, PE, O $0.07_{QRE}$
	2	37.33%	48.00%	13.33%	1.33%
		SPNE, L3, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.90_{QRE}$	L1, L2, IA $0.09_{QRE}$	PE, O, IA $0.01_{QRE}$	A, PE, IA $0.00_{QRE}$
CG 5 (increasing)	1	65.79%	14.47%	13.16%	6.58%
		SPNE, L1, L3 $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.96_{QRE}$	IA $0.03_{QRE}$	L2 $0.00_{QRE}$	A, PE, O $0.00_{QRE}$
	2	20.00%	20.00%	36.00%	24.00%
		SPNE, L2 $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.27_{QRE}$	L2, L3, IA $IA(\rho, \sigma)$ , $0.24_{QRE}$	L1, L2, PE, O, IA $IA(\rho, \sigma)$ , $0.24_{QRE}$	A, L2, PE, IA $IA(\rho, \sigma)$ , $0.24_{QRE}$
CG 6 (increasing)	1	51.32%	15.79%	19.74%	13.16%
		SPNE, L1, L3, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.15_{QRE}$	$0.31_{QRE}$	L2 $0.41_{QRE}$	A, PE, O $0.13_{QRE}$
	2	10.67%	34.67%	40.00%	14.67%
		SPNE, L2, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.00_{QRE}$	L2, L3, IA $IA(\rho, \sigma)$ , $0.14_{QRE}$	L1, L2, PE, O, IA $IA(\rho, \sigma)$ , $0.53_{QRE}$	A, L2, PE, IA $IA(\rho, \sigma)$ , $0.32_{QRE}$
CG 7 (increasing)	1	15.79%	21.05%	25.00%	38.16%
		SPNE, L2 $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.00_{QRE}$	IA $0.25_{QRE}$	L3, IA $A(\gamma)$ , $0.38_{QRE}$	A, L1, PE, O, IA $A(\gamma)$ , $0.37_{QRE}$
	2	57.33%	24.00%	17.33%	1.33%
		SPNE, L1, L3, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.60_{QRE}$	L3 $0.32_{QRE}$	L2, L3, PE, O $A(\gamma)$ , $0.07_{QRE}$	A, L3, PE $A(\gamma)$ , $0.01_{QRE}$
CG 8 (increasing)	1	53.95%	21.05%	14.47%	10.53%
		SPNE, L2, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.77_{QRE}$	$0.12_{QRE}$	L3 $0.05_{QRE}$	A, L1, PE, O $0.05_{QRE}$
	2	52.00%	25.33%	22.67%	0.00%
		SPNE, L1, L3, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.77_{QRE}$	L3, IA $0.13_{QRE}$	L2, L3, PE, O, IA $0.08_{QRE}$	A, L3, PE, IA $0.02_{QRE}$

Notes: The table reports, for each strategy (columns 3-6) in each CG (column 1) and each player role (column 2), (i) the proportion of subjects choosing the strategy, and (ii) the behavioral model that predicts the strategy to be chosen with positive probability. For *QRE*, we list the probability with which it predicts each strategy.

Table 4: Observed and Predicted Behavior for all Models ( $\gamma = .22$ ,  $\rho = .08$ ,  $\sigma = .55$  and  $\lambda = 0.38$ ): CG 9 – 16.

Games	Player	Take the first time	Take the second time	Take the third time	Always pass
CG 9 (constant)	1	22.37%	59.21%	11.84%	6.58%
		SPNE, A, L2, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.43_{QRE}$	A, L1, PE $0.38_{QRE}$	A, PE $0.13_{QRE}$	A, PE, O $0.06_{QRE}$
	2	64.00%	26.67%	9.33%	0.00%
		SPNE, A, L1, L2, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.67_{QRE}$	A, L3, PE, IA $0.20_{QRE}$	A, L3, PE, O, IA $0.08_{QRE}$	A, L3, PE, IA $0.04_{QRE}$
CG 10 (constant)	1	11.84%	67.11%	15.79%	5.26%
		SPNE, A, PE, IA $A(\gamma)$ , $0.33_{QRE}$	A, L2, L3, PE $0.46_{QRE}$	A, L1, PE $0.16_{QRE}$	A, PE, O $0.05_{QRE}$
	2	29.33%	57.33%	12.00%	1.33%
		SPNE, A, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.37_{QRE}$	A, L1, L2, PE, IA $0.42_{QRE}$	A, PE, O, IA $0.13_{QRE}$	A, PE, IA $0.08_{QRE}$
CG 11 (decreasing)	1	64.47%	10.53%	15.79%	9.21%
		SPNE, A, L2, L3, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.43_{QRE}$	L1, PE $0.39_{QRE}$	PE $0.05_{QRE}$	PE, O, IA $0.12_{QRE}$
	2	70.67%	16.00%	10.67%	2.67%
		SPNE, A, L1, L2, L3, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.42_{QRE}$	L3, PE $0.24_{QRE}$	L3, PE, O, IA $0.22_{QRE}$	L3, PE $0.13_{QRE}$
CG 12 (decreasing)	1	55.26%	32.89%	7.89%	3.95%
		SPNE, A, L2, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.53_{QRE}$	L1, PE $0.29_{QRE}$	PE $0.12_{QRE}$	PE, O $0.06_{QRE}$
	2	66.67%	24.00%	9.33%	0.00%
		SPNE, A, L1, L2, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.57_{QRE}$	L3, PE, IA $0.23_{QRE}$	L3, PE, O, IA $0.12_{QRE}$	L3, PE, IA $0.08_{QRE}$
CG 13 (variable)	1	50.00%	17.11%	22.37%	10.53%
		SPNE, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.63_{QRE}$	L2, L3 $0.24_{QRE}$	L1, IA $0.10_{QRE}$	A, PE, O, IA $0.03_{QRE}$
	2	33.33%	44.00%	22.67%	0.00%
		SPNE, L3, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.44_{QRE}$	L1, L2, IA $A(\gamma)$ , $0.32_{QRE}$	PE, O $0.15_{QRE}$	A, PE $0.09_{QRE}$
CG 14 (variable)	1	31.58%	39.47%	15.79%	13.16%
		SPNE, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.50_{QRE}$	L2, L3 $0.30_{QRE}$	L1 $0.14_{QRE}$	A, PE, IA $0.07_{QRE}$
	2	36.00%	42.67%	18.67%	2.67%
		SPNE, L3, PE, IA $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.48_{QRE}$	L1, L2, IA $0.31_{QRE}$	PE, O, IA $0.14_{QRE}$	A, PE, IA $0.08_{QRE}$
CG 15 (variable)	1	72.37%	10.53%	14.47%	2.63%
		SPNE, L1, L2, L3 $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.94_{QRE}$	PE, IA $0.05_{QRE}$	A, PE $0.01_{QRE}$	PE, O $0.00_{QRE}$
	2	68.00%	28.00%	2.67%	1.33%
		SPNE, L1, L2, L3 $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.36_{QRE}$	A, L2, L3, PE, IA $0.23_{QRE}$	L2, L3, PE, O, IA $0.20_{QRE}$	L2, L3, PE, IA $0.20_{QRE}$
CG 16 (variable)	1	39.47%	40.79%	10.53%	9.21%
		SPNE, A, L3, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.38_{QRE}$	L1, L2, PE $0.46_{QRE}$	IA $0.11_{QRE}$	PE, O, IA $0.05_{QRE}$
	2	46.67%	29.33%	24.00%	0.00%
		SPNE, A, L2, L3, PE $A(\gamma)$ , $IA(\rho, \sigma)$ , $0.67_{QRE}$	L1, L3, PE, IA $0.22_{QRE}$	PE, O, IA $0.10_{QRE}$	PE $0.07_{QRE}$

Notes: The table reports, for each strategy (columns 3-6) in each CG (column 1) and each player role (column 2), (i) the proportion of subjects choosing the strategy, and (ii) the behavioral model that predicts the strategy to be chosen with positive probability. For  $QRE$ , we list the probability with which it predicts each strategy.

11 seems to adhere to *SPNE* for both player roles. However, a closer look at the table reveals that this behavior in CG 11 is also consistent with a large number of other behavioral theories. Therefore, our experimental design uses multiple CGs designed to separate the predicted behavior of different behavioral types as much as possible.

## 5.2 Overall Compliance with Behavioral Types

To discriminate across the candidate explanations, we first ask to what extent behavior complies with each behavioral type in absolute terms. Note that we have 151 subjects making choices in 16 different CGs. This results in a total of 2416 decisions ( $151 \times 16$ ). Table 5 lists the compliance rates for each model, on aggregate and disaggregated across the types of games. For instance, 0.38 for *SPNE* reflects that 38% of the choices (out of the 2416) correspond to actions predicted by *SPNE* with positive probability and can thus be rationalized by this model. Since all strategies are played with positive probabilities in *QRE*, any behavior is in-line with this prediction. To allow comparison with other types, Table 5 only count the number of times that subjects selected strategies with the largest predicted probability by *QRE* conditional on  $\lambda$ .

Table 5: Compliance Rates of All Models across Different Types of Centipede Games

Behavioral Type	All games	Increasing	Constant	Decreasing	Variable
<i>SPNE</i>	0.38	0.28	0.32	0.64	0.47
<i>A</i> (0.22)	0.47	0.44	0.32	0.64	0.53
<i>IA</i> (0.08,0.55)	0.43	0.39	0.32	0.64	0.47
<i>A</i>	0.37	0.12	1.00	0.80	0.34
<i>IA</i>	0.53	0.61	0.58	0.44	0.40
<i>PE</i>	0.53	0.27	1.00	1.00	0.58
<i>O</i>	0.17	0.24	0.08	0.08	0.13
<i>L1</i>	0.42	0.40	0.49	0.45	0.42
<i>L2</i>	0.50	0.46	0.53	0.64	0.50
<i>L3</i>	0.52	0.46	0.55	0.80	0.48
<i>QRE</i> (0.38)	0.45	0.38	0.53	0.64	0.47

*Notes:* The table reports the fraction of choices in the experiment complying with each behavioral model for all the CGs (column 2), and separately for the increasing-sum (column 3), constant-sum (column 4), decreasing-sum (column 5), and variable-sum CGs (column 6).

What do we learn from the reported numbers? First, no rule explains the majority of decisions; this points to substantial behavioral heterogeneity. Second, the compliance rates illustrate that many rules could explain large proportion of choices in the

experiment. However, a closer look at the compliance rates across different types of CGs in Table 5 reveals that some models exhibit considerable variation in compliance across the game types. For example, *SPNE* explains up to 64% of decisions in decreasing-sum games but only 28% in increasing-sum CGs. By contrast, *L1*'s compliance varies little across the different types of CGs. This shows that some behavioral types may “appear” highly relevant if one focuses only on one game or even on one type of game. Hence, careful selection of games is crucial if behavior in CGs is to be explained successfully.

The information in Table 5 should be interpreted with care. First, a decision may be compatible with several behavioral types (i.e. the proportions do not add up to one). That is, the candidate behavioral types do not compete against each other when compliance rates are calculated. Second and more importantly, these compliance measures impose no restriction on the consistency of each behavioral explanations within subjects. In this table, an individual could comply with one behavioral model in a certain number of CGs and with another in the rest. Lastly, rules that frequently predict more than one option (e.g. *IA* or *PE*; see Table 1) obtain higher compliance scores. These issues are absent in the mixture-of-types econometric approach introduced in the next section.

### 5.3 Estimation Framework

Our design enables us to use individual behavior across the 16 CGs to identify the behavioral type behind each subject’s revealed choices. Table A5 (in the Appendix A) quantifies how many experimental subjects behave consistently with each behavioral type, for different minimum numbers of CGs in which they are required to comply. We observe that the choices of some subjects across the 16 CGs fully reveal their type. In particular, the decisions of 69 out of our 151 subjects (46%) comply with some behavioral type considered in at least 10 (out of 16) games. Disregarding  $A(\gamma)$  and  $IA(\rho, \sigma)$ , 67 of these subjects could potentially be classified without relying on mixture-model techniques: 25 of them best comply with *SPNE*, 1 with *A*, 3 with *O*, 22 with *L1*, 11 with *L2*, and 5 with *L3*. However, two of these 69 subjects best comply with both *L2* and *L3* simultaneously. Moreover, for reasons explained in Section 4.3, almost all the subjects best complying with *SPNE* are equally compatible with  $A(\gamma)$

and  $IA(\rho, \sigma)$ .<sup>32</sup> Last, the remaining 82 out of our 151 subjects are not classifiable that easily and the actual estimation method is required.

Unlike other approaches, finite mixture-of-types models estimate the distribution of behavioral types in the population, requiring consistency of behavior within subjects and making the candidate models compete with each other.<sup>33</sup> Below, we first describe in detail the maximum likelihood function and then present the estimation results. Readers familiar with mixture-of-types models may prefer to skip the next section and go directly to the estimation results.

### 5.3.1 Maximum Likelihood under Uniform and Spike-Logit Error Specifications

Let  $i$  index the subjects in the experiment,  $i = 1, \dots, 151$ ,  $k$  the behavioral types considered,  $k = 1, 2, \dots, K$ , and  $g$  the CG from a set  $G = \{1, 2, \dots, 16\}$ . In each  $g$ , each subject has four available strategies  $j = 1, 2, 3, 4$ . We assume that individuals comply with their types but make errors. We will present two sets of results, one in which we consider the extreme non-parameterized social-preference types  $A$  and  $IA$  and one in which we instead use the more flexible parameterized models  $A(\gamma)$  and  $IA(\rho, \sigma)$ . In the latter case, the additional parameters are estimated jointly with the other parameters of our mixture models. For each of these alternatives, we estimate two model variations, differing in our assumptions regarding the underlying error structure.

**Uniform errors.** Under our benchmark specification, we assume that a subject employing rule  $k$  makes type- $k$ 's decision with probability  $(1 - \varepsilon_k)$ , but with probability  $\varepsilon_k \in [0, 1]$  she makes a mistake. In such a case, she plays each strategy uniformly at random from the four available strategies. As in most mixture-of-types model applications, we assume that errors are identically and independently distributed across games and subjects and that they are type-specific.<sup>34</sup> The first assumption facilitates

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<sup>32</sup>These examples illustrate why the numbers reported in Table A5 are generally higher than those mentioned here. Some subjects could equally comply with more than one model (not necessarily in the same games) and less separated behavioral models tend to include the same subjects, while here we only refer to the model that best explains the behavior of each individual.

<sup>33</sup>Our approach closely follows that of Stahl and Wilson (1994, 1995), Harless and Camerer (1994), El-Gamal and Grether (1995), Costa-Gomes et al. (2001), Camerer et al. (2004), Costa-Gomes and Crawford (2006), and Crawford and Iriberri (2007a,b).

<sup>34</sup>See e.g. El-Gamal and Grether (1995), Crawford et al. (2001), Iriberri and Rey-Biel (2013), or Kovarik et al. (2018) among many others.

the statistical treatment of the data, while the second considers that some types may be more cognitively demanding and thus lead to larger error rates than others.

The likelihood of a particular individual of a particular type can be constructed as follows. Let  $P_k^{g,j}$  be type- $k$ 's predicted choice probability for strategy  $j$  in game  $g$ . Some rules may predict more than one strategy in a CG. This is reflected in the vector  $P_k^g = (P_k^{g,1}, P_k^{g,2}, P_k^{g,3}, P_k^{g,4})$  with  $\sum_j P_k^{g,j} = 1$ .<sup>35</sup> The probability that an individual  $i$  will choose a particular strategy  $j$  if she is of type  $k \neq QRE$  is

$$(1 - \varepsilon_k)P_k^{g,j} + \frac{\varepsilon_k}{4}.$$

Note that, since  $P_k^{g,j} > 0$  for strategies predicted by  $k$  while  $P_k^{g,j} = 0$  otherwise, the probability of choosing one particular strategy inconsistent with rule  $k \neq QRE$  is  $\frac{\varepsilon_k}{4}$ .

For each individual in each game, we observe the choice and whether it is or it is not consistent with  $k$ . Let  $x_i^{g,j} = 1$  if action  $j$  is chosen by  $i$  in game  $g$  in the experiment and  $x_i^{g,j} = 0$  otherwise. The likelihood of observing a sample  $x_i = (x_i^{g,j})_{g,j}$  given type  $k$  and subject  $i$  is then

$$L_i^k(\varepsilon_k | x_i) = \prod_g \prod_j \left[ (1 - \varepsilon_k)P_k^{g,j} + \frac{\varepsilon_k}{4} \right]^{x_i^{g,j}}. \quad (4)$$

In the variation of the model, in which—instead of  $A$  and  $IA$ —we apply  $A(\gamma)$  and  $IA(\rho, \sigma)$ , the predicted choice probabilities depend on the parameters of each model and we write  $P_A^g(\gamma)$  and  $P_{IA}^g(\rho, \sigma)$ , respectively. The expression (4) for  $A(\gamma)$  and  $IA(\rho, \sigma)$  then becomes:

$$L_i^k(\varepsilon_k, \theta | x_i) = \prod_g \prod_j \left[ (1 - \varepsilon_k)P_k^{g,j}(\theta) + \frac{\varepsilon_k}{4} \right]^{x_i^{g,j}}, \quad (5)$$

where  $\theta = \gamma$  for  $A(\gamma)$  and  $\theta = (\rho, \sigma)$  for  $IA(\rho, \sigma)$ .

Matters are different for  $QRE$ . In this case,  $P_k^g = P_k^g(\lambda)$ . Hence,

$$L_i^{QRE}(\lambda | x_i) = \prod_g \prod_j \left( P_{QRE}^{g,j}(\lambda) \right)^{x_i^{g,j}}, \quad (6)$$

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<sup>35</sup>The particular probabilities for each type considered here are listed in Tables 3 and 4 (and displayed visually in Figures A3 and A4 in the Appendix A). As an example,  $P_{SPNE}^g = (1, 0, 0, 0)$  for each  $g$ . That is,  $SPNE$  stops with probability one at the first decision node of each CG. Note that for the remaining models, the predictions are not symmetric across the player roles so we should also specify  $P$  for different player roles. Since the notation is already cumbersome in the current form, we omit the dependency of  $P_k^{g,j}$  on player role in the presentation of the model.

where  $\lambda$  is a free parameter to estimate, inversely related to the level of error, and  $P_{QRE}^g(\lambda) = [P_{QRE}^{g,1}(\lambda), P_{QRE}^{g,2}(\lambda), P_{QRE}^{g,3}(\lambda), P_{QRE}^{g,4}(\lambda)]$  are the *QRE* probabilities of each action in game  $g$ . Abusing slightly the notation, denote by  $P_{QRE}^g(\lambda)$  a (mixed) strategy profile in game  $g$  and let  $\pi^g(j, P_{QRE}^g(\lambda))$  be the expected payoff from choosing  $j$  in game  $g$  against the profile  $P_{QRE}^g(\lambda)$ . We follow the literature and work with the logistic *QRE* specification. Thus, the vector  $P_{QRE}^g(\lambda)$  in each game is the solution to the following set of four equations per player role: for  $j = 1, 2, 3, 4$ ,

$$P_{QRE}^{g,j}(\lambda) = \frac{\exp[\lambda\pi^g(j, P_{QRE}^g(\lambda))]}{\sum_l \exp[\lambda\pi^g(l, P_{QRE}^g(\lambda))]} \quad (7)$$

As mentioned above, one might think that behavioral models that predict more than one strategy may be artificially favored by appearing more successful. However, this is not the case with our likelihood specifications, since models predicting more actions are punished in (4), (5), and (6) through lower  $P_k^{g,j}$ . Consequently, whenever someone takes a strategy predicted by these models, it is taken as evidence for them to a lower extent compared to models that generate more precise predictions.

Adding up for all  $k$  (including *QRE*) and  $i$ , and assigning probabilities  $p = (p_1, p_2, \dots, p_K)$  to each  $k$  yields one log-likelihood function of the whole sample:

$$\ln L(p, (\varepsilon_k)_{k \neq QRE}, \lambda | x) = \sum_i \ln \left[ \sum_{k \neq QRE} p_k L_i^k(\varepsilon_k | x_i^{g,j}) + p_{QRE} L_i^{QRE}(\lambda | x_i^{g,j}) \right]. \quad (8)$$

In case of  $A(\gamma)$  and  $IA(\rho, \sigma)$ , the log-likelihood (8) changes to

$$\ln L(p, (\varepsilon_k)_{k \neq QRE}, \gamma, \rho, \sigma, \lambda | x) = \sum_i \ln \left[ \sum_k p_k L_i^k(\cdot) \right]. \quad (9)$$

**Spike-logit errors.** Observe that, by construction, *QRE* is treated differently in (8) and (9) from other rules. Nevertheless, the logistic-error structure can also be specified for the error of any behavioral model, except those rules that do not involve any type of optimization. This only concerns *PE* in our case so we drop this type for this particular specification.<sup>36</sup> Hence, in our alternative specification we use a spike-logit error structure, in which we also assume that a subject employing rule  $k$  makes

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<sup>36</sup>As shown below, we find no evidence for *PE* anyway, so our results are not affected by its elimination.

type- $k$ 's decision with probability  $(1 - \varepsilon_k)$  and err with probability  $\varepsilon_k \in [0, 1]$ . If people make a mistake, we assume that they only play with positive probabilities strategies *not* predicted by the rule and these probabilities follow a logistic distribution. The probabilities of selecting such type-inconsistent strategies scale up with their payoffs or utilities for most behavioral types (as for  $QRE$ ), they scale up with the sum of payoffs for  $A$ , or scale down with the absolute value of the difference between the payoffs of the two players for  $IA$ , given the corresponding type's beliefs about others' behavior. Moreover, this alternative error specification requires the estimation of one additional parameter  $\lambda_k$  for each  $k \neq QRE$ . Similarly to  $QRE$ , these parameters measure how sensitive the probability to choose a strategy inconsistent with a rule  $k \neq QRE$  is to their goal (i.e. payoff, utility, sum of payoffs, or generated payoff difference).

Formally, denote by  $\pi_i^{g,k}(j)$  the payoff of individual  $i$  who employs type  $k \neq QRE, A, IA, A(\gamma), IA(\rho, \sigma)$ , who selects strategy  $j$  in game  $g$ , and who holds type  $k$ 's beliefs about the behavior of opponents.<sup>37</sup> Let  $j'_{g,k} = \{j | P_k^{g,j} = 0\}$  be the subset of strategies that are *not* predicted by a type  $k$  in game  $g$ . Define these concepts for  $A, IA, A(\gamma)$ , and  $IA(\rho, \sigma)$  analogously.

Thus,  $i$ 's likelihood of being of type  $k \neq QRE$  is

$$L_i^k(\varepsilon_k, \lambda | x_i) = \prod_g \prod_j [(1 - \varepsilon_k)P_k^{g,j} + \varepsilon_k V_k^{g,j}(\lambda_k)]^{x_i^{g,j}}, \quad (10)$$

where for any  $j \in j'_{g,k}$

$$V_k^{g,j}(\lambda_k) = \frac{\exp[\lambda_k \pi_i^{g,k}(j)]}{\sum_{j'_{g,k}} \exp[\lambda_k \pi_i^{g,k}(j)]} \quad (11)$$

and  $V_k^{g,j}(\lambda_k) = 0$  for  $j \notin j'_{g,k}$ . As mentioned above,  $\lambda_k$ 's,  $k \neq QRE$ , are free parameters to estimate.

In the variation of the model with  $A(\gamma)$  and  $IA(\rho, \sigma)$  (instead of  $A$  and  $IA$ ), the predicted choice probabilities depend on the parameters of each model and we write  $P_k^g(\theta)$  being  $\theta = \gamma$  and  $\theta = (\rho, \sigma)$ , respectively. The expression (10) then becomes:

$$L_i^k(\varepsilon_k, \theta, \lambda_k | x_i) = \prod_g \prod_j [(1 - \varepsilon_k)P_k^{g,j}(\theta) + \varepsilon_k V_k^{g,j}(\lambda_k)]^{x_i^{g,j}}, \quad (12)$$

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<sup>37</sup>*SPNE* believes her opponents are also *SPNE*, but *Lk*, for instance, believe her opponents are *Lk-1*. The beliefs of all behavioral types are described in Section 3.2.



The *QRE* probabilities are defined as in (6) and (7) and, by analogy, the log-likelihood of the whole sample under *A* and *IA* is

$$\ln L(p, (\varepsilon_k)_{k \neq QRE}, \lambda | x) = \sum_i \ln \left[ \sum_{k \neq QRE} p_k L_i^k(\varepsilon_k, \lambda_k | x_i^{g,j}) + p_{QRE} L_i^{QRE}(\lambda_{QRE} | x_i^{g,j}) \right]. \quad (13)$$

In case of  $A(\gamma)$  and  $IA(\rho, \sigma)$ , the log-likelihood (13) changes to

$$\ln L(p, (\varepsilon_k)_{k \neq QRE}, \gamma, \rho, \sigma, \lambda | x) = \sum_i \ln \left[ \sum p_k L_i^k(\cdot) \right]. \quad (14)$$

### 5.3.2 Estimation Results

We estimate two sets of parameters: frequency of behavioral types within the subject population  $p = (p_1, p_2, \dots, p_K)$  and the error-related parameters, one or two for each behavioral type depending on the error specification. Under uniform errors, the error-related parameters are  $\varepsilon_k$  for  $k \neq QRE$  and the inverse error rate  $\lambda$  for *QRE*. In contrast, under the spike-logit specification, there are two error-related parameters per model, with the exception of *QRE*. More precisely,  $\varepsilon_k$  for  $k \neq QRE$  and a vector  $\lambda = (\lambda_1, \dots, \lambda_K)$  that includes  $\lambda_{QRE}$ . Last, if  $A(\gamma)$  and  $IA(\rho, \sigma)$  are applied, we also estimate their parameters. Under mild conditions satisfied by the functions (8), (9), (13), and (14), the maximum likelihood estimation produces consistent estimates of the parameters (Leroux, 1992).

Tables 6A and 6B present the estimation results for both error specifications. Table 6A corresponds to estimations with *A* and *IA*; Table 6B to those with the parameterized  $A(\gamma)$  and  $IA(\rho, \sigma)$ . Columns (1 – 4) in Table 6A and columns (1 – 6) in Table 6B contain the uniform-error specification estimates, while columns (5 – 10) and (7 – 14), respectively, show those for spike-logit errors. Standard errors shown in parentheses below each estimate and the corresponding significance levels (\*\* $p > 0.01$ , \* $p > 0.05$ ) were computed using bootstrapping with 100 replications (Efron and Tibshirani, 1994). For the frequency parameters  $p_k$ , the inverse error rates  $\lambda_{QRE}$ , and for parameters  $\gamma$ ,  $\rho$ , and  $\sigma$ , we simply report their significance levels. However, the error rates are well behaved if they are close to zero and far from one. Therefore, we test whether each  $\varepsilon_k$  differs significantly from one (rather than zero). The standard errors and significance levels reported jointly with the estimated  $\varepsilon_k$ 's in Tables 6A and 6B correspond to these

tests.<sup>38</sup>

There are several differences between the uniform and spike-logit error specifications. They mainly differ in how they treat choices inconsistent with a type  $k$ . The former treats all mistakes in the same way, while the latter punishes more costly mistakes more than less costly ones. The consequence of the payoff-dependent errors is that the spike-logit specification uses more information, since it regards the payoffs.<sup>39</sup> Rather than favoring one error specification over the other, we let readers decide, in which assumptions they wish to place more confidence.

We first discuss in detail the results from Table 6A. First, consider the models that include all the behavioral types introduced in Section 3.2, shown in columns (1 – 2) and (5 – 7) in Table 6A. Observe that both error specifications yield qualitatively similar results. First, non-strategic and preference-based behavioral models ( $A$ ,  $IA$ ,  $PE$ ,  $O$ ) all explain less than 5%.  $IA$  and  $PE$  additionally exhibit very high error rates. The  $O$  type is an exception in that, despite explaining only 3% of the population, its estimated fractions are significant and the error rates very low. Moreover, its estimates are highly robust to the model specification. Second,  $SPNE$  explains the behavior of about 10% of subjects well, consistently across the two models, and  $SPNE$ 's estimated error rates are actually among the lowest. Third, the rest of the behavior—in fact, most of the behavior of subjects inconsistent with  $SPNE$ —is best explained by level- $k$  thinking and  $QRE$ . Under both error specifications, level- $k$  thinking is estimated to represent around 55% of the subject population, while  $QRE$  represents about 30%. Level- $k$  thinking model also shows a familiar pattern compared to other estimation results with most subjects concentrated in  $L1$ , followed by  $L2$  and  $L3$  (see Crawford et al., 2013). However, the main difference between both error specifications comes from the proportions of each level. Under uniform errors, around half of the population best explained by level- $k$  is classified as  $L1$ , while  $L1$  absorbs half of the shares of  $L2$  and  $L3$  in the spike-logit specification.

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<sup>38</sup>We perform no statistical tests for the  $\lambda_k$ 's corresponding to the models different from  $QRE$  in the spike-logit specification because these only tell how sensitive the mistakes are to each type's goal, but they are irrelevant for telling with which probability people make mistakes. These probabilities are determined by the estimated  $\varepsilon_k$ .

<sup>39</sup>Another potential difference might arise due to the joint estimation of  $\lambda$  with the other parameters if the estimated  $\lambda$  differs across the two models. The value of  $\lambda$  affects the degree of separability between  $QRE$  and the other candidates (see Table A1) and different separability may effect the estimated type frequencies. Since the estimated  $\lambda$ 's are very similar in all our estimations, this concern does not apply here.

Table 6A: Estimation Results I: Non-Parameterized Specification for Social Preferences

Type	Uniform Error				Spike-Logit Error					
	Full		Selected		Full			Selected		
	$p_k$ (1)	$\varepsilon_k, \lambda$ (2)	$p_k$ (3)	$\varepsilon_k, \lambda$ (4)	$p_k$ (5)	$\varepsilon_k$ (6)	$\lambda_k$ (7)	$p_k$ (8)	$\varepsilon_k$ (9)	$\lambda_k$ (10)
SPNE	0.09** (0.03)	0.32** (0.09)	0.08** (0.03)	0.31** (0.08)	0.10** (0.03)	0.27** (0.05)	1.00 (0.02)	0.11** (0.04)	0.29** (0.06)	0.98 (0.08)
A	0.02 (0.01)	0.38** (0.19)			0.01 (0.01)	0.19** (0.04)	0.02 (0.20)			
IA	0.03** (0.01)	1.00 (0.20)			0.02 (0.01)	0.80** (0.06)	0.00 (0.05)			
PE	0.00 (0.02)	0.75* (0.15)								
O	0.03* (0.01)	0.06** (0.11)	0.03* (0.01)	0.06** (0.17)	0.03* (0.01)	0.05** (0.08)	0.08 (0.14)	0.03* (0.01)	0.05** (0.07)	0.08 (0.14)
L1	0.29** (0.05)	0.59** (0.04)	0.31** (0.05)	0.60** (0.05)	0.41** (0.07)	0.49** (0.03)	0.01 (0.05)	0.43** (0.07)	0.51** (0.03)	0.01 (0.06)
L2	0.18** (0.06)	0.61** (0.06)	0.21** (0.06)	0.66** (0.04)	0.08** (0.02)	0.36** (0.04)	0.19 (0.08)	0.08** (0.03)	0.36** (0.04)	0.19 (0.08)
L3	0.10* (0.04)	0.59** (0.08)	0.11* (0.04)	0.62** (0.07)	0.06* (0.04)	0.43** (0.12)	0.01 (0.02)	0.06* (0.04)	0.44** (0.12)	0.00 (0.01)
QRE	0.28** (0.05)	0.38** (0.12)	0.27** (0.05)	0.42** (0.15)	0.29** (0.05)		0.39** (0.09)	0.29** (0.06)		0.37** (0.09)

*Notes:* The table reports the estimation results for the uniform error specification in columns (1-4) and the spike-logit error specification in columns (5-10). Columns (1), (3), (5), and (8) present the estimated frequencies of each behavioral model; columns (2), (4), (6), (7), (9), and (10) present the estimated error-related parameters. For each error specification, we report both the full and the selected model. The full model includes all considered behavioral types; the selected models only include the types that satisfy the following: (i) the estimated frequency is significantly different from 0 and (ii) the estimated error rate is significantly different from 1 (for *QRE*, the estimated  $\lambda$  is different from 0).

Given that several models systematically fail to explain the behavior in our experiment, we estimate reduced models with some selected behavioral types. One widely debated and so far unresolved issue is the over-parameterization of mixture-of-types models and the related model selection (MacLachlan and Peel, 2000; Cameron and Trivendi, 2005, 2010).<sup>40</sup> Cameron and Trivendi (2005) propose using the natural interpretation of the parameters and MacLachlan and Peel (2000) argue that the best model minimizes the number of components selected if their proportions differ and all are different from zero. We take an approach that combines these recommendations. We require two conditions to hold for a type  $k$  to be included in our reduced model:  $p_k \gg 0$  and  $\varepsilon_k \ll 1$  ( $\lambda_k \gg 0$  for *QRE*). In words, we require the share of each type  $k$  selected to be high enough and its error rate low enough (the inverse error rate high enough for *QRE*) to suggest that the decisions of people classified as  $k$  are made on purpose rather than by error.<sup>41</sup>

For both specifications, we eliminate those rules with negligible shares or high error rates. In particular, we estimate a reduced form of both (8) and (13), in which we only include the relevant behavioral types *O*, *QRE*, level- $k$ , and *SPNE*. Columns (3–4) and (8–10) in Table 6A report the results. The estimates of the selected behavioral types are stable as we move from the full to the reduced model. Moreover, all the parameters estimated are well behaved. Under the uniform specification, the types excluded are entirely absorbed by *L1* and *L2*. As a result, their error rates slightly increase. The estimates suggest that the composition of the population is 3% of *O*, 8% of *SPNE*, 27% of *QRE*, and 63% of level- $k$ . Under the spike-logit specification, the types excluded are entirely absorbed by *L1* and *SPNE* and their error rates thus slightly increase. The estimates suggest that the composition of the population is 3% of *O*, 11% of *SPNE*, 29% of *QRE*, and 57% of level- $k$  reasoning, figures very similar to the uniform-error specification.<sup>42</sup>

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<sup>40</sup>Standard criteria for model selection (such as Akaike or Bayesian Information criteria or the likelihood ratio test) may perform unsatisfactorily in finite mixture models (Cameron and Trivendi, 2005, 2010).

<sup>41</sup>This approach follows Kovarik et al. (2018) who propose a related model-selection algorithm and, using Monte-Carlo simulations, show that such an algorithm successfully recovers the data-generating processes as long as the error rates are not too high.

<sup>42</sup>It might be thought that our comparison between *QRE* and level- $k$  could favor the latter, as level- $k$  allows for multiple types while we estimate a single *QRE*. Therefore, we re-estimate our uniform model with two *QRE* types (with different  $\lambda$ 's). The estimation results are shown in Table A6 in the Appendix A. Compared to the original  $p_{QRE} = 0.27$  and  $\lambda_{QRE} = 0.42$ , the introduction of another

Table 6B: Estimation Results II: Parameterized Specification for Social Preferences

Type	Uniform Error					
	Full			Selected		
	$p_k$	$\varepsilon_k, \lambda$	$\gamma, \rho, \sigma$	$p_k$	$\varepsilon_k, \lambda$	$\gamma, \rho, \sigma$
(1)	(2)	(3)	(4)	(5)	(6)	
SPNE	0.01 (0.01)	0.00** (0.15)				
A	0.08** (0.03)	0.38** (0.07)	0.21** (0.04)	0.08** (0.03)	0.38** (0.07)	0.22** (0.04)
IA	0.06** (0.02)	0.20** (0.03)	0.07**, 0.55** (0.02), (0.12)	0.06** (0.03)	0.18** (0.04)	0.08**, 0.55** (0.02), (0.13)
PE	0.01 (0.02)	0.45** (0.23)				
O	0.03* (0.01)	0.06** (0.07)		0.03* (0.01)	0.06** (0.10)	
L1	0.28** (0.04)	0.59** (0.04)		0.29** (0.05)	0.59** (0.04)	
L2	0.20** (0.06)	0.65** (0.08)		0.21** (0.05)	0.67** (0.07)	
L3	0.08* (0.04)	0.63** (0.13)		0.08* (0.04)	0.62** (0.14)	
QRE	0.24** (0.04)	0.37** (0.09)		0.24** (0.05)	0.38** (0.09)	

Type	Spike-Logit Error							
	Full				Selected			
	$p_k$	$\varepsilon_k$	$\lambda_k$	$\gamma, \rho, \sigma$	$p_k$	$\varepsilon_k$	$\lambda_k$	$\gamma, \rho, \sigma$
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
SPNE	0.06** (0.01)	0.93** (0.03)	0.49 (0.03)		0.06** (0.01)	0.93** (0.04)	0.34 (0.03)	
A	0.10** (0.01)	0.39** (0.01)	0.01 (0.01)	0.29** (0.00)	0.10** (0.02)	0.11** (0.05)	0.00 (0.10)	0.19** (0.01)
IA	0.06** (0.01)	0.12** (0.01)	0.51 (0.02)	0.02, 0.76** (0.00), (0.00)	0.06** (0.00)	0.11** (0.01)	0.53 (0.04)	0.02, 0.80** (0.01), (0.00)
O	0.03** (0.01)	0.05** (0.04)	0.08 (0.02)		0.03** (0.01)	0.05** (0.02)	0.08 (0.04)	
L1	0.37** (0.01)	0.47** (0.02)	0.01 (0.01)		0.37** (0.08)	0.47** (0.02)	0.01 (0.05)	
L2	0.09** (0.01)	0.37** (0.02)	0.14 (0.03)		0.09** (0.00)	0.37** (0.03)	0.14 (0.03)	
L3	0.00 (0.00)	0.63** (0.03)	0.10** (0.03)					
QRE	0.29** (0.02)		0.34** (0.06)		0.29** (0.06)		0.34** (0.03)	

Notes: The table reports the estimation results for the uniform error specification in columns (1-6) and the spike-logit error specification in columns (7-14). Columns (1), (4), (7), and (11) present the estimated frequencies of each behavioral model; columns (2), (5), (8-9), and (12-13) present the estimated error-related parameters; columns (3), (6), (10), and (14) present the parameters estimated for  $A(\gamma)$  and  $IA(\rho, \sigma)$ . For each error specification, we report both the full and the selected model. The full model includes all considered behavioral types; the selected models only include the types that satisfy the following: (i) the estimated frequency is significantly different from 0 and (ii) the estimated error rate is significantly different from 1 (for *QRE*, the estimated  $\lambda$  is different from 0).

Let us now turn the attention to Table 6B, in which we consider the flexible models of social preferences  $A(\gamma)$  and  $IA(\rho, \sigma)$ . In Table 6B, the uniform-error specification is positioned in the top of the table while the spike-logit specification in the bottom. Observe that the estimates of each estimation are displayed in three columns; columns (1 – 3) and (7 – 10) correspond to the full models and columns (4 – 6) and (11 – 14) to the selected ones. In line with Table 6A, the estimates are robust to the error specification and the elimination of rules from the full model. Most importantly, the majority of non-equilibrium behavior is still explained by level- $k$  and  $QRE$  and their estimated parameters are virtually unaffected.

The main difference between Tables 6A and 6B concerns  $SPNE$  and the social-preference types. We find no evidence for  $A$  and  $IA$  in Table 6A, whereas 14% of subjects are classified as either  $A(\gamma)$  or  $IA(\rho, \sigma)$  and their error rates are well behaved in Table 6B. We can observe that these shares come at the cost of  $SPNE$ , which receives no support in the full model and is, therefore, eliminated in the selected one. However, a closer look at the estimated  $\gamma$ ,  $\rho$ , and  $\sigma$  of subjects classified into these social-preference types reveals the reason: they exhibit almost no social concerns and their behavior matches closely that of  $SPNE$ . As shown in Tables 2, 3, and 4,  $SPNE$  and  $IA(\rho = 0.08, \sigma = 0.55)$  predict exactly the same strategy in 30 decisions (out of 32) whereas  $SPNE$  and  $A(\gamma = 0.22)$  in 26 of them. Moreover, in the remaining cases (with one exception) both  $A(\gamma = 0.22)$  and  $IA(\rho = 0.08, \sigma = 0.55)$  predict multiple actions, one of which is typically the same as the one prescribed by  $SPNE$ . That is, even if  $A(\gamma)$  and  $IA(\rho, \sigma)$  could theoretically be well separated from  $SPNE$  (simply by being truly non-selfish; see Tables A2 and A3 in the Appendix A), the actually estimated altruistic and inequity-averse types become behaviorally almost indistinguishable in order to explain about 14% of the population. They thus account for a very small part of non-equilibrium choices in our data. Most importantly though, since these social-preference types only compete for space with  $SPNE$  and never with the other non- $SPNE$  theories, the conclusions that most non-equilibrium choices can be explained by the failure of common knowledge of rationality (level- $k$ ) and bounded rationality ( $QRE$ ) and preference-based arguments play at most a negligible role in explaining non-

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$QRE$  type leads to  $p_{QRE1} = 0.22$  with  $\lambda_{QRE1} = 0.38$  and  $p_{QRE2} = 0.06$  with  $\lambda_{QRE2} = 0.32$ , while the estimated frequencies of the rest of the types being virtually unaffected. Therefore, the proportion of people classified in each rule is unaffected by considering one or two  $QRE$  types and our benchmark model does not seem to favor level- $k$  over  $QRE$ .

equilibrium play in CGs still hold even if we allow for more flexible social-preference types.

An issue linked naturally to the objectives of finite-mixture modeling is whether the estimations generate a well separated, non-overlapping classification of subjects at the individual level. In particular, a desirable property of type mixtures is that individuals are ex-post classified to one and only one of the candidate types, rather than, say, 50% *QRE* and 50% level- $k$ . Therefore, we compute posterior probabilities of each individual belonging to a certain type (see MacLachlan and Peel, 2000). Given that our two specifications in Tables 6A and Tables 6B deliver qualitatively and quantitatively similar results, this exercise is only performed for the selected model under uniform errors in Table 6A. If people are accurately classified at the individual level then those posterior probabilities are close to one for a single behavioral model and close to zero for the remaining ones for each individual. This is indeed the case (as shown by Figure A8) so we conclude that our classification is also successful at the individual level. As a result, two departures from *SPNE* seem to be crucial for non-equilibrium behavior in CGs and, as shown by this posterior-probabilities exercise, each model is relevant for different individuals.

### 5.3.3 Robustness 1: Gang of four

The previous subsection shows that non-equilibrium behavior in CGs is explained by both *QRE* and level- $k$  as representations of bounded rationality and the failure of common knowledge of rationality, respectively. Due to its prominence in the early literature on CGs, this section analyzes whether these conclusions are robust to considering the “gang of four” model (*GoF*, hereafter). Similarly to level- $k$ , *GoF* relaxes the assumption of common knowledge of rationality but, as opposed to level- $k$ , it is an equilibrium approach. In this model, there are two types of players, strategic types and non-strategic types, and the type distribution is common knowledge. However, players have incomplete information about the type of their opponent. McKelvey and Palfrey (1992) propose such model to rationalize individual behavior in their exponentially-increasing CG. In particular, they allow for the existence of a type who always passes (rationalized as an altruist in their paper), such that there is a fraction  $(1-q)$  of such non-strategic types and a fraction  $q$  of the strategic individuals in the population. This constitutes an incomplete-information game and one can compute the Bayes-Nash equi-

libria of any game in function of  $q$ . If  $q = 1$ ,  $GoF = SPNE$  in our framework; if  $q = 0$ , the strategic type best responds to the non-strategic one. We make the original model more flexible by assuming that the non-strategic type is an altruist,  $A$ , who maximizes the sum of payoffs between the two players. Assuming  $A$  rather than an “Always Pass” type as in McKelvey and Palfrey (1992) enables such a type to react to differing incentives to take or pass across our CGs and thus gives a better chance to  $GoF$  to explain the behavior of at least some subjects in our data.

Observe that including  $GoF$  among our candidate models requires to estimate  $q$  jointly with other parameters of the model. In our fitting exercise, we interpret  $q$  as a—not necessarily correct—belief an individual following  $GoF$  holds regarding the population frequency of the strategic types. Remember that McKelvey and Palfrey (1992) find that experimental subjects’ behavior can be rationalized with a  $q = 0.95$ .

We first analyze the separation rate between  $GoF$  and the other candidate models. This is shown in Table A7. Among the relevant explanations, there might exist separation problems between  $GoF$  on one side and  $L1$  and  $L2$  on the other for certain values of  $q$ . No issues arise with  $L3$ . Naturally, if  $q = 1$ ,  $GoF = SPNE$  but both models are well separated for any  $q < 1$  in our CGs. Last, it may potentially resemble the estimated  $QRE$  if  $q = 1$  but the separation for the estimated  $\lambda$  is good otherwise. In sum, if  $GoF$  is relevant in our data it will most likely compete with  $L1$  and  $L2$  and might thus impact their estimated shares but should not alter the frequencies of other models.<sup>43</sup>

The estimation results shown in Table 7 confirm this conjecture. Compared to the uniform-error estimations in Table 6A, the estimated shares of all models but level- $k$  are virtually unaffected in both the full and selected models.<sup>44</sup> The estimated  $q$  in the selected model takes the value of 0.32, a value for which the predictions of  $GoF$  are relatively close to both  $L1$  and  $L2$ . However, note that both  $L1$  and  $L2$  still exhibit higher estimated shares than the estimated 8% for  $GoF$  even though the latter has one additional degree of freedom due to the parameter  $q$ . Moreover, the estimated value of  $1 - q$  is 68% in our estimation. This means that individuals classified as  $GoF$  believe that there are 68% of altruists in the population. This figure is considerably larger

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<sup>43</sup>If  $GoF$  competes with  $SPNE$ , it would mean that the estimated  $q$  is so close to 1 that people classified as  $GoF$  are rather  $SPNE$ . In Table 7,  $q$  is always significantly different from 1.

<sup>44</sup>Since the estimated  $p_O$  is not statistically different from 0 in the first selected model (Selected 1), this is the only case in which we apply our model selection procedure twice.



Table 7: Estimation Results including Gang of Four

Type	Uniform Error								
	Full			Selected 1			Selected 2		
	$p_k$ (1)	$\varepsilon_k, \lambda$ (2)	$q$ (3)	$p_k$ (4)	$\varepsilon_k, \lambda$ (5)	$q$ (6)	$p_k$ (7)	$\varepsilon_k, \lambda$ (8)	$q$ (9)
SPNE	0.09** (0.04)	0.32** (0.10)		0.08** (0.03)	0.32** (0.08)		0.08** (0.03)	0.32** (0.08)	
A	0.01 (0.01)	0.36** (0.16)							
IA	0.00 (0.01)	0.99 (0.01)							
PE	0.03* (0.02)	1.00 (0.02)							
O	0.02* (0.01)	0.00** (0.06)		0.02 (0.01)	0.00** (0.09)				
L1	0.23** (0.04)	0.56** (0.04)		0.23** (0.05)	0.56** (0.06)		0.24** (0.05)	0.57** (0.05)	
L2	0.15** (0.05)	0.61** (0.06)		0.19** (0.06)	0.67** (0.09)		0.18** (0.06)	0.66** (0.09)	
L3	0.10** (0.04)	0.59** (0.05)		0.10* (0.05)	0.61** (0.09)		0.11* (0.05)	0.61** (0.08)	
GoF	0.08* (0.04)	0.51** (0.08)	0.37** (0.05)	0.10* (0.05)	0.54** (0.08)	0.37** (0.09)	0.11* (0.05)	0.57** (0.08)	0.32** (0.08)
QRE	0.28** (0.05)	0.38** (0.10)		0.28** (0.05)	0.38** (0.12)		0.28** (0.05)	0.38** (0.11)	

*Notes:* The table reports estimation results for uniform error specifications. Columns (1), (4), and (7) present the estimated frequencies of each behavioral model; columns (2), (5), and (8) present the estimated error-related parameters; columns (3), (6), and (9) present the estimated parameter  $q$  for *GoF*. The full model includes all considered behavioral types; the selected models only include the types that satisfy the following: (i) the estimated frequency is significantly different from 0 and (ii) the estimated error rate is significantly different from 1 (for *QRE*, the estimated  $\lambda$  is different from 0). Since the estimated  $p_O$  is not statistically different from 0 in the first selected model, we apply our model selection procedure twice.

that the 5% proposed in McKelvey and Palfrey (1992) to explain the behavior in their experiment and contrasts starkly with the estimated proportions of  $A$  in any of our model specifications. We believe that these observations cast certain doubt on  $GoF$  as a relevant explanation of behavior in our data.

This conclusion notwithstanding, if one accepts  $GoF$  as a relevant explanation, observe that the estimated share of level- $k$  is 63% in the uniform-error model in Table 6A, while the fraction of level- $k$  plus  $GoF$ —the two models that relax the assumption of common knowledge of rationality—is 64% in Table 7. That is, our conclusions regarding the explanation of non-equilibrium choices in the data are *both* qualitatively and quantitatively robust to whether we include  $GoF$  among our candidate models: above 60% of behavior in our experiment can be attributed to the failure of common knowledge of rationality, and common knowledge of rationality and bounded rationality explain virtually all non-equilibrium behavior while preference-based approaches play a negligible role.

### 5.3.4 Robustness 2: Estimation by Player Role and Omitted Types

In this section, we provide two additional exercises. First, we estimate the selected models separately for the two player roles. Second, we report an exercise testing for omitted behavioral types. Since all our model specifications deliver similar messages, the robustness checks in this section are only performed for the selected models from Table 6A.

**Estimation by player role.** There is some evidence that people adapt their sophistication to their strategic situations (see e.g. Kovarik et al., 2018, or Mengel and Grimm, 2012).<sup>45</sup> Since this might potentially also apply to different roles in the same game, we would like to make sure that our conclusions still hold if we re-estimate our selected models separately for each player role. Table 8 reports the estimates for both the uniform and spike-logit error specifications. Observe that our main conclusions are qualitatively unaffected by only considering one player type: a relatively small fraction of subjects is classified as  $SPNE$ , while the majority is best described by either  $QRE$  or level- $k$ . Again, level- $k$  is the most relevant model, classifying most people as  $L1$ . However, we observe two systematic quantitative differences across the player roles. In

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<sup>45</sup>Gill and Prowse (2016) document that some people change their degree of sophistication depending on the sophistication of their opponents in Beauty Context Games.

particular, Players 2 exhibit higher estimated shares of  $L1$  and lower shares of  $L3$ . In fact, the estimates suggest that no subject in role 2 can be classified as  $L3$ .<sup>46</sup>

To see whether the type composition changes across the two player roles, we formally test whether the parameters estimated differ across the two models, using the uniform error specification. Brame et al. (1998) propose a statistical test for the equality of maximum-likelihood regression coefficients between two independent equations. Despite the differences mentioned above, these tests detect no difference between the corresponding pairs of estimated coefficients across the two models at the conventional 5% level, with the exception of the error rate of  $L1$ ,  $\varepsilon_{L1}$ . These tests thus support the idea that the above classification differ neither qualitatively nor quantitatively across the two player roles.

Table 8: Estimation Results by Subjects' Role: Player 1 and Player 2

Type	Uniform Error				Spike-Logit Error					
	Player 1		Player 2		Player 1			Player 2		
	$p_k$	$\varepsilon_k, \lambda$	$p_k$	$\varepsilon_k, \lambda$	$p_k$	$\varepsilon_k$	$\lambda$	$p_k$	$\varepsilon_k$	$\lambda$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>SPNE</i>	0.05*	0.33**	0.05	0.16**	0.05	0.23**	1.00	0.14**	0.26**	0.93
	(0.03)	(0.09)	(0.06)	(0.15)	(0.03)	(0.17)	(0.03)	(0.05)	(0.09)	(0.10)
<i>O</i>	0.05*	0.33**	0.05	0.16**	0.03*	0.00**	0.26	0.03	0.09**	0.08
	(0.03)	(0.09)	(0.06)	(0.15)	(0.01)	(0.20)	(0.17)	(0.02)	(0.12)	(0.11)
<i>L1</i>	0.31**	0.81**	0.44**	0.54**	0.31**	0.61**	0.01	0.44**	0.44**	0.05
	(0.07)	(0.04)	(0.09)	(0.05)	(0.08)	(0.04)	(0.04)	(0.06)	(0.02)	(0.06)
<i>L2</i>	0.10*	0.60**	0.23**	0.66**	0.10*	0.41**	0.16	0.06*	0.26**	0.42
	(0.06)	(0.14)	(0.08)	(0.09)	(0.05)	(0.05)	(0.09)	(0.02)	(0.11)	(0.15)
<i>L3</i>	0.22**	0.58**	0.05	0.69*	0.21*	0.45**	0.01	0.00	0.51**	0.05
	(0.09)	(0.03)	(0.03)	(0.15)	(0.10)	(0.08)	(0.02)	(0.00)	(0.15)	(0.07)
<i>QRE</i>	0.33**	0.38**	0.23**	0.67**	0.31**		0.38**	0.33**		0.27
	(0.07)	(0.10)	(0.05)	(0.15)	(0.06)		(0.10)	(0.06)		(0.17)

*Notes:* The table reports the estimation results for the uniform error specification in columns (1-4) and the spike-logit error specification in columns (5-10). Columns (1), (3), (5), and (8) present the estimated frequencies of each behavioral model; columns (2), (4), (6), (7), (9), and (10) present the estimated error-related parameters. For each error specification, we report both the full and the selected model. We only report behavioral types from the selected models in Table 6A.

**Omitted types.** One important question inherent in finite mixture-of-types models is the selection of the candidate types. What if there is a type that explains a relevant part of our subjects' behavior but is not included in the set of candidate explanations?

To test for this possibility, we perform the following "omitted type" exercise. We re-estimate our models separately for each player role 76 and 75 times for Player 1 and

<sup>46</sup>The available data do not allow us to explore the reason behind the differences.

Player 2, respectively. In each of these 151 estimations, we add to the set of considered models an additional type, whose predicted behavior is identical to the experimental behavior of one particular subject's choices. That is, each subject represents one type in one these 151 estimations. If someone's behavior approximates the behavior of many others well and is sufficiently different from any of the theories considered, this would provide evidence for a relevant type being missing from our set. Note that this exercise is only possible under the uniform error specification because we take the behavioral profile as a type without actually observing the underlying optimization problem of such subjects.

For such an omitted type to be relevant, two criteria are applied. First, we require the type to attract a non-negligible frequency. In particular, we look for subjects who attract a share of at least 10% the population. Second, we require the type to be sufficiently separated from any candidate explanation already considered. In particular, types must be separated in at least half of the 16 CGs. It turns out that there are five subjects who play as Player 1 (subjects 10, 17, 39, 67 and 72) and three who play as Player 2 (subjects 100, 140, 151), who satisfy both conditions. A closer look at their behavior reveals that they all behave as hybrids between different consecutive types of level- $k$ . When we add those two combinations as possible behavioral types,  $L1-L2$  and  $L2-L3$ , which consist of either one type or the other, none of the predictions of the omitted types survives the application of the separation criteria mentioned above.

Hence there are some subjects whose behavior taken as a behavioral type could potentially explain that of a non-negligible part of other subjects. However, these omitted types hybridize level- $k$  and mostly affect the share of different level- $k$  types, such that they still maintain the assumption of perfect rationality and relax the common knowledge of rationality.<sup>47</sup> Therefore, their existence does not affect our main conclusions in that equilibrium behavior is represented by a minority and that the majority of individuals can be explained by either level- $k$  or  $QRE$ .

### 5.3.5 Robustness 3: Out-of-Sample Predictions

The ability to predict out-of-sample is a desirable feature of any model. In this section, we assess the extent to which the selected uniform-error mixture model (columns (3 -

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<sup>47</sup>See Gill and Prowse (2016) for further evidence on these hybrid types. A finer analysis of these hybrid types is out of the scope of the present paper.

4) in Table 6A) that best fits the behavior of subjects in some games, referred to as *in-sample* games, is able to predict both individual and population-level behavior in other games, referred to as *out-of-sample* games. For this model to generate successful out-of-sample predictions, we require two things. First, the estimated composition of the population, as well as the individual posterior probabilities of belonging to a particular behavioral type must be stable across different in-sample games. This would actually show how robust the estimates of our mixture-of-types model in Table 6A is to the removal of one particular game. Second, this model must predict behavior successfully in and consistently across different out-of-sample games, at both individual and population level.<sup>48</sup>

The individual- and population-level out-of-sample prediction exercises that we carry out exploit the behavioral variation across the 16 different CGs used in our experiment and have the following common basis. First, we estimate 16 variations of the model with 15 games only (rather than 16 as in Table 6A). Since we remove a different game each time from each estimation, this yields 16 different population-level estimations, reported in Tables A8 and A9 in the Appendix A.

We first check the robustness of the estimates to such removals. At the population level, we formally test whether any of the parameters estimated in these 16 models is significantly different from its counterpart in the benchmark model in columns (3 - 4) in Table 6A. It is remarkable that none of the  $16 \times 12 = 192$  parameters is significantly different at conventional 5% from its original estimation with 16 games.<sup>49</sup> At the individual level, we employ the parameters estimated in the 16 models based on 15 games and compute the posterior probabilities of our 151 subjects belonging to each behavioral type.<sup>50</sup> For each of the 16 models, we assign each individual to the type that best explains his/her behavior in the in-sample games. This enables us to assess the individual-level stability and consistency of our classification from the previous section. We observe that 42% of the subjects (63 out of 151) are fully consistent, such

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<sup>48</sup>There only exists scarce evidence of whether subjects' behavior is stable across different games. Georganas et al. (2015) examine whether level- $k$  model generates stable cross-game predictions at the individual level in two types of games (undercutting games and two-person guessing games). They report stable classification within types but large instability across game types. Given these results, our out-of-sample exercise solely focuses on different CGs.

<sup>49</sup>We do not report the details of these 192 tests here. They are available upon request from the authors.

<sup>50</sup>This would lead to 16 four-panel graphs similar to Figure A8 in the Appendix A.

that they are classified in the same behavioral type across all 16 estimations; 77% (117 out of 151) are consistently classified in at least 12 out of 16 (75%) games. Most of our subjects are thus consistently classified into the same behavioral model at the individual level even in subsets of our games. Therefore, our main estimation results are highly robust to the removal of any single game at both the population and the individual level.

**Individual-level out-of-sample predictions.** We use the above individual-level classification of subjects based on the 15 in-sample games and predict the strategy that each subject should take in the out-of-sample CG excluded while making the classification. Our individual-level test compares this predicted behavior with the action actually taken by the corresponding subject in the corresponding game. This exercise generates a  $151 \times 16$  matrix of “hits”, or “probability of hits” for *QRE*, for the 151 subjects in the 16 CGs, which enables us to assess the ability of the mixture-of-types model to predict the behavior of each subject in the out-of-sample CGs.

To provide a relative prediction performance of our mixture model, we repeat this procedure for each relevant behavioral type (*SPNE*, *QRE*, *O*, and level-*k*) in isolation. For *SPNE* and *O*, we simply take the average compliance between their predictions and actual individual behavior across the 16 CGs. For *QRE* we estimate 16 models that assume that all subjects are classified as *QRE* using their observed behavior in the in-sample games, yielding one  $\lambda$  per estimation. With the estimated  $\lambda$ 's, we assess the average ability of *QRE* to predict the observed behavior in the out-of-sample CGs. For level-*k*, we estimate 16 mixture models with three types, *L1*, *L2*, and *L3*, and compute accordingly the average individual-level ability of this level-*k* mixture to predict out of sample.

The left panel of Figure 6 reports the average proportional improvement in the ability to predict individual behavior out of sample (0 reflecting no improvement and 1 reflecting 100% improvement) in each model, be it our mixture model or one of the four one-type models described above, compared to a pure random hit of 0.25. The latter corresponds to a purely random type that selects each strategy with probability one fourth. The figures reported should thus be interpreted as how much better the out-of-sample prediction of a particular model is than a pure random selection of action. The vertical bars reflect standard errors of the 16 improvements and reflect how sensitive the ability of each model to predict individual out-of-sample behavior is

to different out-of-sample CGs. A good model should on average exhibit significantly greater improvements with respect to random behavior and the average improvement should not be too sensitive to which game is being predicted. Our mixture and the mixture of different level- $k$ 's exhibit the largest improvements compared to random prediction, but a comparison between them shows that allowing non-level- $k$  types in our mixture model improves the ability to predict individual behavior significantly. Our mixture model improves the prediction ability of a random type by almost 90%, compared to less than 80% in case of level- $k$ . Additionally, our mixture-of-types model and *QRE* reveal the lowest sensitivity to which CG is being predicted. However, our mixture-of-types model largely outperforms *QRE*. We thus conclude that jointly considering alternative explanations of behavior significantly enhances the ability of a model to predict individual behavior in out-of-sample games.

**Population-level out-of-sample predictions.** This test is again based on the 16 estimations with the 15 in-sample games described above.<sup>51</sup> With the estimates in hand, we compute the log-likelihood (8) for the *observed* behavior of our subjects in the out-of-sample game. This generates 16 log-likelihood values. Again, to be able to assess the relative ability of the mixture-of-types model in columns (3 - 4) in Table 6A to predict out of sample *vis-à-vis* the individual explanations of behavior in the in-sample games, we apply the estimated parameters and compute the loglikelihood of the observed behavior in the out-of-sample CG. As before, we perform the same exercise for a random type, which selects each strategy with probability one fourth, and use it for normalization. More precisely, we compute the difference between the log-likelihood of each model (once again either our mixture model or all the one-type models) and the log-likelihood of the uniform model divided by the log-likelihood of the uniform model, which gives the proportional improvement in log-likelihoods of each model with respect to random behavior. The right-hand panel of Figure 6 reports the average proportional improvement of the log-likelihood values with respect to random behavior (see Table A10 for more details). The vertical bars reflect the standard errors of these 16 improvements and again reflect how sensitive the ability of each model to predict is to the CG considered. A good model should on average exhibit significantly

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<sup>51</sup>This exercise is motivated by Wright and Leyton-Brown (2010) except that we predict the behavior of the same subjects in different games, rather than using one part of the subject pool for predicting the behavior of other part of the pool.

greater improvement with respect to random behavior and the average improvement should not be too sensitive to which game is being predicted. In the latter case, if the standard errors are large the particular model predicts well for some games but fails to predict successfully for others. Observe that the first condition is only satisfied for the mixture-of-types model and a mixture of level- $k$ . That is, *QRE*, *SPNE*, and *O* alone are not significantly better at predicting the behavior of our subjects out-of-sample than a random selection of an action. Furthermore, the mixture-of-types model on average outperforms the level- $k$  alone.

As for standard errors, the mixture-of-types model is also the most stable at predicting behavior, while all the others show greater sensitivity to the out-of-sample games. In fact, our mixture-of-types model is the only one that always outperforms the random type (see Table A10). The remaining models always predict the behavior worse than a pure random type for at least two games.<sup>52</sup> This includes the mixture of level- $k$ .

We thus conclude that, at both the individual and population levels, our mixture-of-types model is the most successful in predicting behavior and the least dependent on which out-of-sample game is chosen to predict. As a result, researchers should account for behavioral heterogeneity in CGs not only for a better explanation of behavior as advocated by this paper, but also for a better prediction of choices in out-of-sample games.

## 6 Conclusions

We report a study designed to explain initial behavior in CGs, combining experimental and econometric techniques. Our approach enables us to classify people into different behavioral explanations and discriminate between them. Crucially, this approach determines endogenously whether one or multiple explanations are empirically relevant. We show that people are largely heterogeneous and more than one explanation is required to both explain and predict individual behavior in CGs. Independently of our model specification, roughly 10% of people behave close to *SPNE* and most non-equilibrium behavior seems to be due to two reasons: either the failure of common knowledge of

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<sup>52</sup>*O* is an exception but it is because the estimated error is  $\varepsilon_o = 1$ . Therefore, it always performs as the random behavioral type.



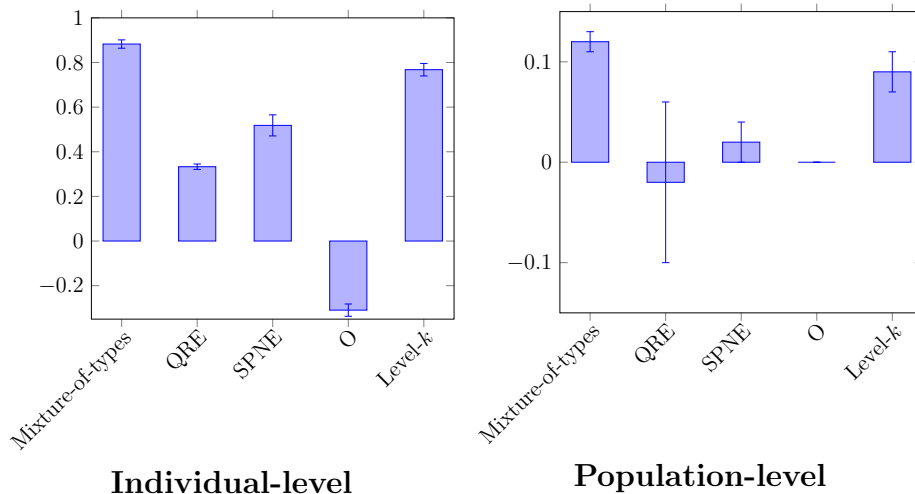


Figure 6: Average Proportional Improvement in the Ability to Predict (left) and Log-likelihood (right) over the Random Behavior, when Comparing the Observed Behavior in out-of-sample Games Using in-sample Games for Estimation.

rationality, as advocated by Aumann (1992, 1995) and modeled via level- $k$  thinking model in our setting, or bounded reasoning abilities of subjects, simulated by  $QRE$ .

The reported results may stimulate future research in two directions. Our study contributes to the “competition” between level- $k$  models and  $QRE$  as two behavioral alternatives to standard equilibrium approaches. Some authors argue for the former while others prefer the latter, but empirical literature has found difficulties in discriminating between the two approaches because both theories often predict very similar behavior. As a result, most studies compare their abilities to explain behavior using the representative-agent approach. Our design allows us to separate the predictions of the two theories and we show that—at least in our setting—both level- $k$  models and  $QRE$  are empirically relevant for the explanation of non-equilibrium choices but each model explains the behavior of different subjects. Future research should determine how these conclusions extend to other strategic contexts.

Second, the behavior in CGs and other extensive-form games has been attributed to their dynamic nature and the failure of backward induction, whereas our study again shows that it may be a more general non-equilibrium phenomenon. Since most non-equilibrium choices in our experiment are best explained by  $QRE$  and level- $k$  that have been successful in explaining behavior in static environments, our findings call

for a reevaluation of the aspects that distinguish static from dynamic games in the analysis of non-equilibrium behavior.

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# Appendix A: Additional Tables and Figures

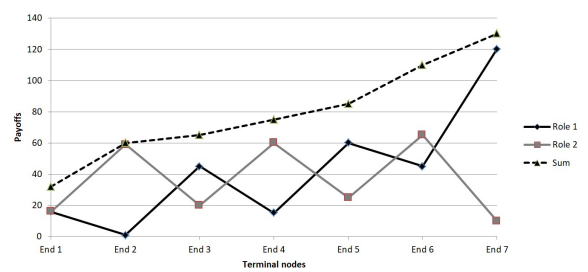
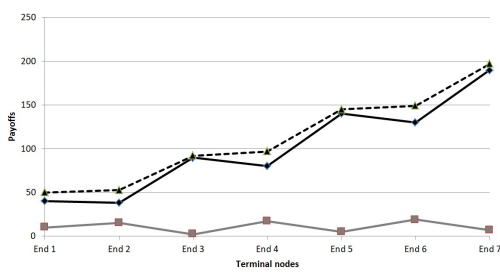
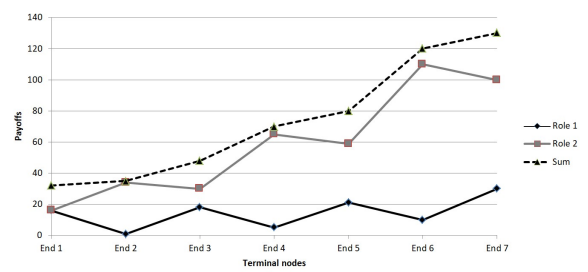
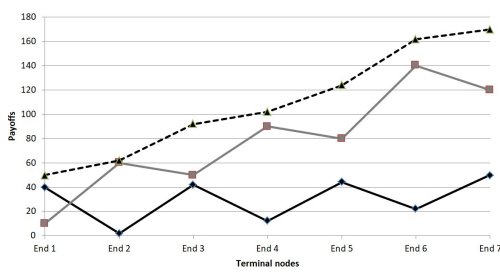
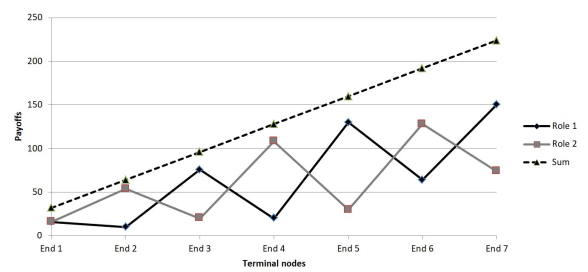
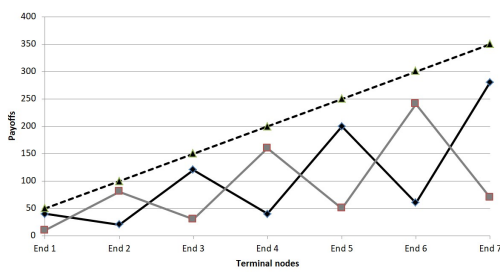
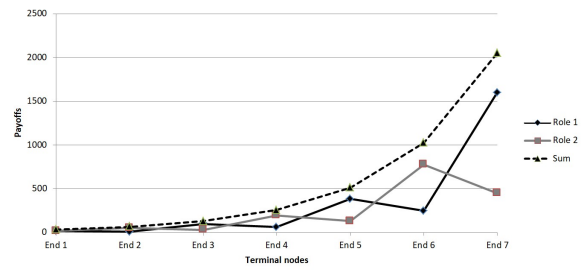
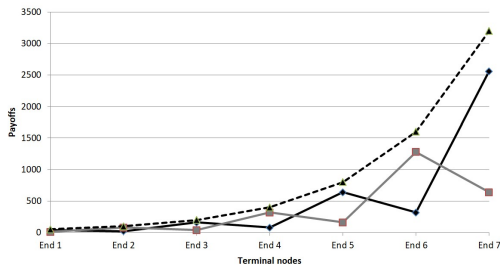


Figure A1: Alternative Representation of the Centipede Games used in the Experiment (1-8).



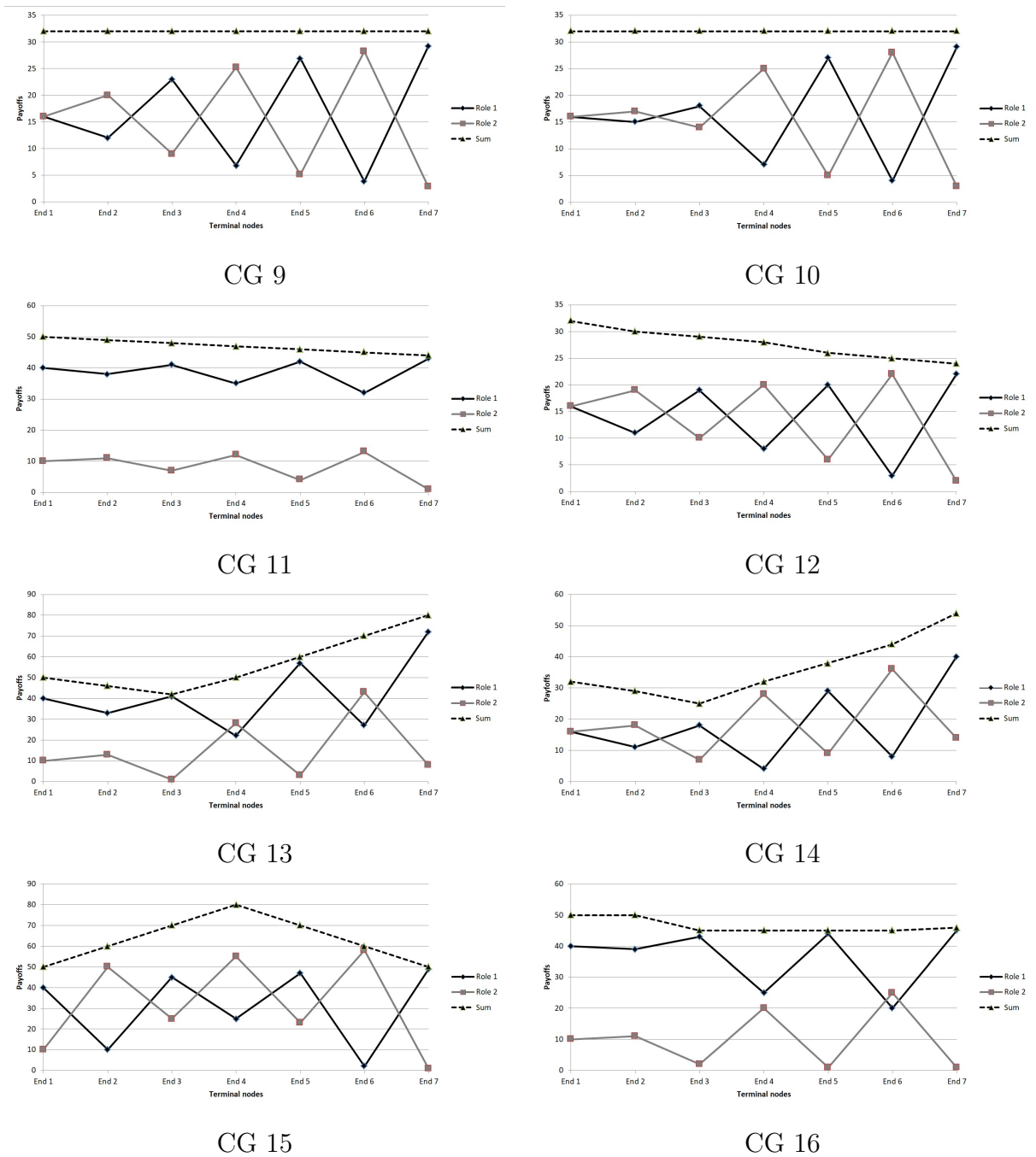
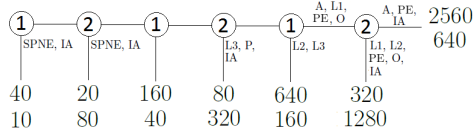
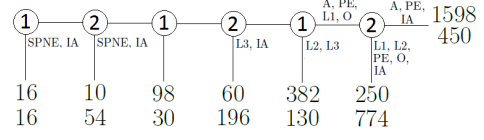


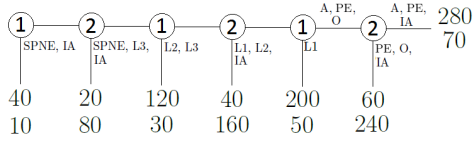
Figure A2: Alternative Representation of the Centipede Games used in the Experiment (9-16).



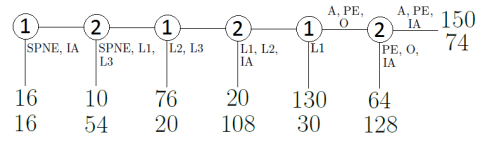
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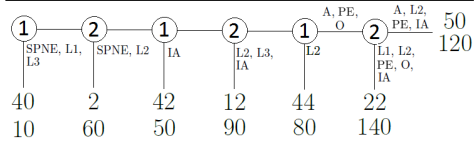
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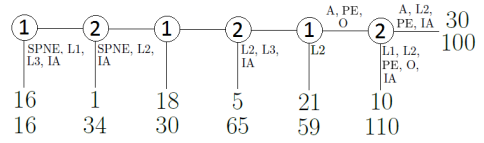
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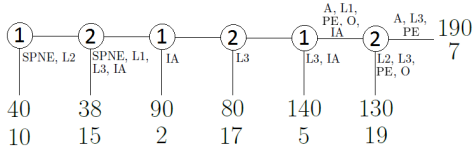
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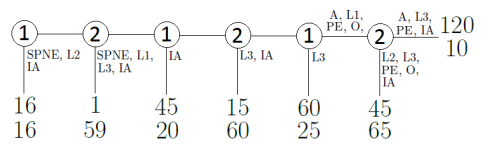
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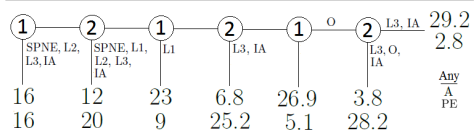
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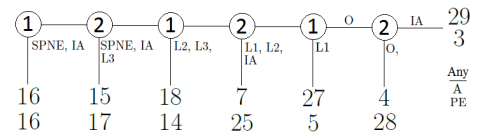
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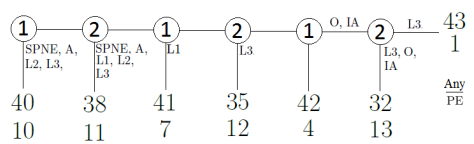
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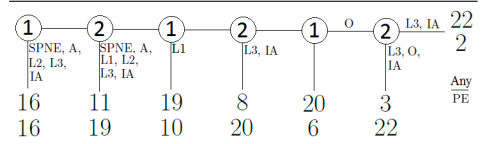
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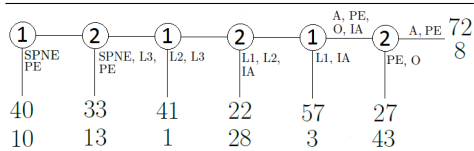
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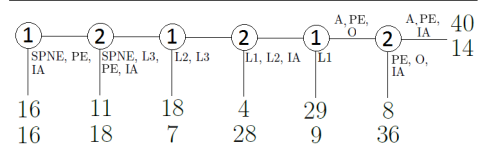
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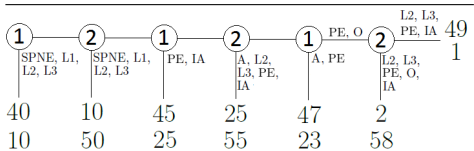
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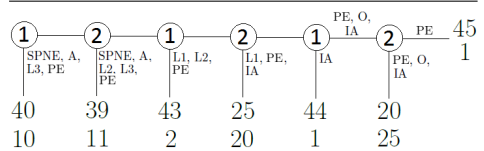
CG 13



CG 14

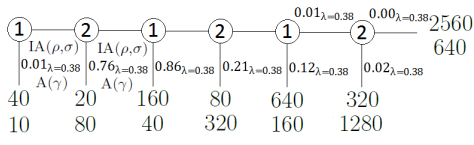


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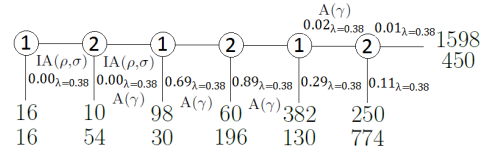


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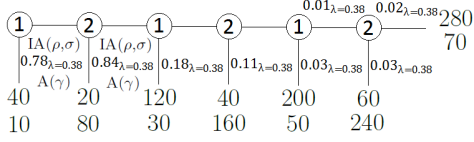
Figure A3: The 16 CGs used in the Experiment with the Predictions of each of the Behavioral Models except  $QRE$ ,  $A(\gamma)$  and  $IA(\rho, \sigma)$  (see Figure A4).



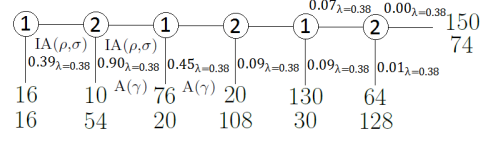
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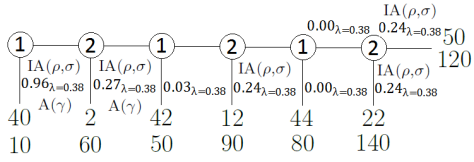
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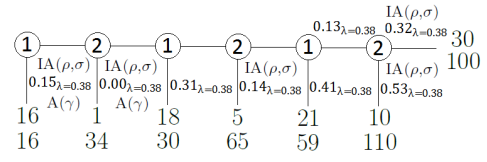
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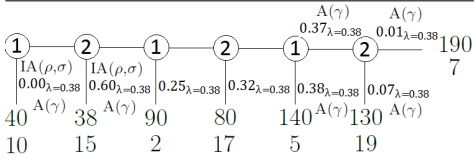
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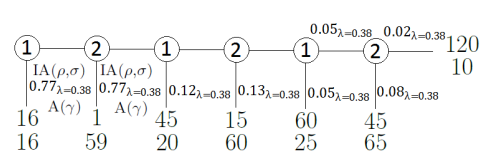
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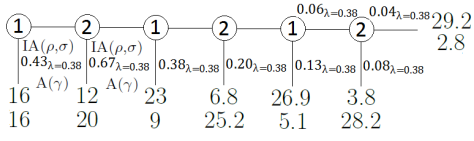
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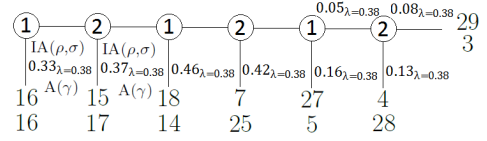
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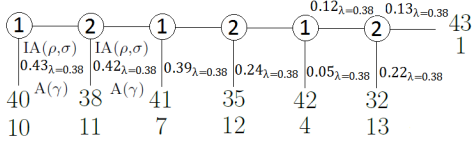
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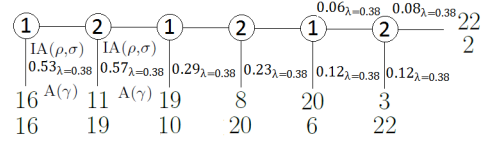
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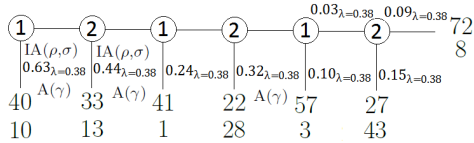
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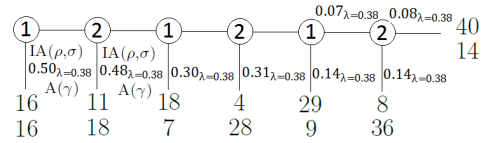
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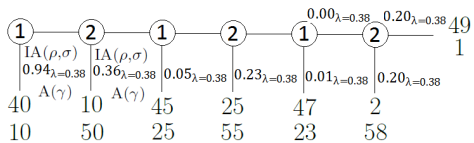
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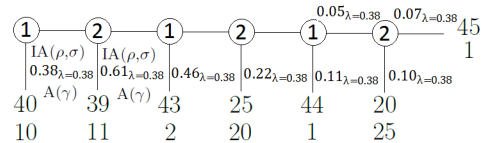
CG 13



CG 14



CG 15



CG 16

Figure A4: The 16 CGs Used in the Experiment with the Predictions of  $QRE$ ,  $A(\gamma)$  and  $IA(\rho, \sigma)$  for the values  $\lambda = 0.38$ ,  $\rho = 0.22$  and  $\sigma = 0.55$ .

Table A1: The Separation Rates between *QRE* and all other Behavioral Models for  $\lambda = \{0, 0.1, \dots, 1\}$

	<i>SPNE</i>	<i>A</i> ( $\gamma=.22$ )	<i>IA</i> ( $\rho=.08, \sigma=.55$ )	<i>A</i>	<i>IA</i>	<i>PE</i>	<i>O</i>	<i>L1</i>	<i>L2</i>	<i>L3</i>
$\lambda = 0.0$	0.75	0.70	0.70	0.55	0.45	0.38	0.75	0.75	0.68	0.61
$\lambda = 0.1$	0.66	0.60	0.64	0.91	0.87	0.84	0.91	0.47	0.54	0.58
$\lambda = 0.2$	0.50	0.44	0.48	0.84	0.74	0.83	0.91	0.53	0.48	0.58
$\lambda = 0.3$	0.34	0.32	0.35	0.84	0.76	0.82	0.94	0.59	0.57	0.58
$\lambda = 0.4$	0.31	0.29	0.32	0.88	0.72	0.85	0.97	0.66	0.54	0.52
$\lambda = 0.5$	0.25	0.29	0.26	0.88	0.69	0.85	0.97	0.69	0.60	0.52
$\lambda = 0.6$	0.22	0.27	0.23	0.88	0.69	0.85	0.97	0.72	0.66	0.52
$\lambda = 0.7$	0.22	0.27	0.23	0.88	0.69	0.85	0.97	0.72	0.66	0.52
$\lambda = 0.8$	0.19	0.24	0.20	0.88	0.66	0.85	0.97	0.72	0.66	0.52
$\lambda = 0.9$	0.16	0.22	0.17	0.88	0.66	0.85	0.97	0.72	0.66	0.55
$\lambda = 1.0$	0.16	0.22	0.17	0.88	0.66	0.85	0.97	0.72	0.66	0.55

*Notes:* The table reports the separation rates between the *QRE* and each of the behavioral models listed in the first row for different values of  $\lambda$ . The minimum separation is 0, when two behavioral models predict exactly the same strategy for each of the player roles and each of the centipede games. The maximum separation rate is 1 when two behavioral models predict a different strategy for each of the player roles and each of the centipede games.

Table A2: The Separation Rates between  $A(\gamma)$  and  $SPNE$  for  $\gamma = \{0.01, 0.1, 0.2, \dots, 1\}$

$\gamma$	Separation Rates
0.01	0.00
0.10	0.00
0.20	3.83
0.30	10.83
0.40	13.59
0.50	15.67
0.60	17.08
0.70	18.92
0.80	21.08
0.90	22.58
1.00	26.33

*Notes:* The table reports the separation rates between the  $A(\gamma)$  and  $SPNE$  for different values of  $\gamma$ . The minimum separation is 0, when two behavioral models predict exactly the same strategy for each of the player roles and each of the centipede games. The maximum separation rate is 1 when two behavioral models predict a different strategy for each of the player roles and each of the centipede games.

Table A3: The Separation Rates between  $IA(\rho, \sigma)$  and  $SPNE$  for  $\rho = \{0.01, 0.1, 0.2, \dots, 1\}$  and  $\sigma = \{0.01, 0.1, 0.2, \dots, 1\}$

$\rho/\sigma$	0.01	0.10	0.20	0.3	0.40	0.50	0.60	0.70	0.80	0.90	1.00
0.01	0.00	0.00	0.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
0.10	0.50	0.50	1.25	1.25	1.25	1.25	1.25	2.00	2.00	2.00	2.00
0.20	3.00	3.17	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
0.30	5.92	5.75	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
0.40	7.58	6.92	6.75	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
0.50	10.92	10.17	8.75	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
0.60	12.75	11.00	9.92	9.42	8.42	8.42	8.42	8.42	8.42	8.42	8.42
0.70	19.33	14.25	11.58	11.00	11.00	9.75	9.58	9.58	9.58	9.58	9.58
0.80	20.92	16.08	14.67	12.83	11.58	11.58	11.58	10.25	10.25	10.17	10.17
0.90	21.92	19.58	16.00	14.17	13.17	13.17	11.58	11.58	11.58	10.25	10.25
1.00	21.08	20.75	16.00	14.33	14.33	14.33	13.33	13.33	11.75	11.75	11.75

*Notes:* The table reports the separation rates between the  $IA(\rho, \sigma)$  and  $SPNE$  for different values of  $\rho$  and  $\gamma$ . The minimum separation is 0, when two behavioral models predict exactly the same strategy for each of the player roles and each of the centipede games. The maximum separation rate is 1 when two behavioral models predict a different strategy for each of the player roles and each of the centipede games.

**Separation in Payoffs.** This part provides an alternative look at how well the predictions of the candidate explanations are separated in our CGs, taking into account the incentives of each behavioral type to behave as a different type. More precisely, Table A4 compares the incentives of each behavioral type to follow its predictions in our 16 CGs vs. the predictions of any alternative theory, measured according to the *goal* of each type (e.g. the sum of payoffs of both players for  $A$ , payoff difference for  $IA$ , and simply payoffs or utilities for the other types). The first row and column list the different behavioral types; the upper (lower) part of the table corresponds to Player 1(2). A particular cell  $ij$  reports the aggregate payoff that the behavioral type in row  $i$  earns in the 16 CGs if she behaves true to type in column  $j$  and her opponents behave in line with the beliefs of type  $i$ . In particular, if  $i = j$  the cell contains the total payoff over the 16 CGs of a subject who is of type  $i$  always behaves as predicted by rule  $i$  and the opponents always behave according to the beliefs of type  $i$ . For example, a Player 1 who adheres to  $SPNE$  always ends the game at her first decision node, leading to  $8 \times 40 + 8 \times 16 = 448$  experimental points. For  $i \neq j$ , the cells contain the total payoff

in the 16 CGs that type  $i$  obtains if she keeps the beliefs of type  $i$  but behaves as type  $j$  instead. As example, consider a *SPNE* player with *SPNE* beliefs who behaves as  $A$ . Since such a player expects the opponent to behave according to *SPNE*, the cell  $(SPNE, A)$  contains  $20 + 10 + 20 + 10 + 2 + 1 + 38 + 1 + 13 + 15.25 + 40 + 16 + 33 + 11 + 10 + 39.25 = 279.5$ . Note that no such analysis can be carried out for *PE* as they are not following an optimization problem, although it is possible to calculate the payoff that other behavioral types would earn if they followed the *PE* prescription rather than their own optimal strategy.

Table A4: Separation in Payoffs between Different Models

		Player 1									
	<i>SPNE</i>	$A(\gamma)$	$IA(\rho, \sigma)$	$A$	<i>IA</i>	<i>PE</i>	$O$	$L1$	$L2$	$L3$	$QRE(\lambda = 0.38)$
<i>SPNE</i>	<b>448.00</b>	434.67	448.00	279.50	368.00	280.33	271.00	354.00	329.00	366.00	380.41
$A(\gamma = .22)$	492.82	655.28	492.82	681.26	490.62	684.13	673.95	<b>733.67</b>	633.42	732.46	618.81
$IA(\rho = .08, \sigma = .55)$	<b>429.34</b>	368.06	<b>429.34</b>	45.11	352.50	44.35	31.12	181.97	181.91	202.36	264.52
$A$	656.00	1856.67	656.00	<b>6859.00</b>	831.67	6827.42	6856.00	6408.00	2165.00	2191.00	1403.06
<i>IA</i>	240.00	323.33	240.00	436.50	<b>141.00</b>	447.42	427.00	397.00	424.00	415.00	366.31
$O$	448.00	1423.33	448.00	5283.28	587.00	5258.69	<b>5307.20</b>	5133.00	1571.00	1703.00	1065.40
$L1$	448.00	796.25	448.00	1781.78	484.08	1783.61	1755.95	<b>1861.75</b>	1028.00	1122.00	776.19
$L2$	448.00	664.67	448.00	851.25	383.00	863.75	830.00	902.00	<b>1571.00</b>	1542.00	816.95
$L3$	448.00	729.33	448.00	1011.13	495.25	1024.08	992.50	1034.00	1539.50	<b>1703.00</b>	910.26
$QRE(\lambda = 0.38)$	448.00	539.28	448.00	466.69	437.23	472.25	443.48	512.85	517.39	541.97	<b>553.37</b>

		Player 2									
	<i>SPNE</i>	$A(\gamma)$	$IA(\rho, \sigma)$	$A$	<i>IA</i>	<i>PE</i>	$O$	$L1$	$L2$	$L3$	$QRE(\lambda = 0.38)$
<i>SPNE</i>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>	<b>208.00</b>
$A(\gamma)$	381.00	580.72	381.00	740.04	572.11	740.04	740.04	744.56	<b>756.49</b>	462.75	490.55
$IA(\rho, \sigma)$	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>	<b>76.25</b>
$A$	876.00	1436.00	991.75	<b>6859.00</b>	3302.50	5432.33	4037.00	3685.00	3771.75	1557.75	1480.50
<i>IA</i>	218.00	215.67	201.50	189.75	<b>141.00</b>	181.75	158.00	159.00	187.00	191.50	184.71
$O$	595.00	962.17	680.75	1661.10	1635.27	2304.93	<b>3009.20</b>	2847.00	2774.75	1031.60	1029.40
$L1$	498.25	592.83	526.50	700.04	740.45	860.08	1027.33	<b>1106.25</b>	1054.00	662.54	632.86
$L2$	487.00	853.17	487	1284.25	1278.50	1806.08	2299.00	2565.00	<b>2584.00</b>	840.00	773.69
$L3$	499.00	531.00	536.75	584.00	621.58	591.67	581.00	581.00	582.75	<b>942.00</b>	700.51
$QRE(\lambda = 0.38)$	396.19	401.73	409.12	346.52	377.21	347.05	330.05	335.18	412.13	384.42	<b>427.23</b>

Notes: The table reports the separation in payoffs between the behavioral models listed in the first columns and first rows, for players 1 and 2 in the top and bottom panels. A particular number in row  $i$  and column  $j$  reports the payoff a behavioral model listed in row  $i$  obtains if it follows the strategies predicted by the behavioral model listed in column  $j$ .

By construction, the comparison of the  $i = j$  values with  $i \neq j$  illustrate the incentives of a subject of a particular type to comply or not with her type. In the table, the highest values (lowest payoff difference for *IA*) are in bold. As expected, almost all types maximize their goal if they follow the prescriptions of their type, while alternative decision rules typically yield a lower payoff (higher payoff difference in case of *IA*).<sup>53</sup> The behavioral types that show the widest separation in payoffs is those of  $A$  and  $O$ , while *SPNE* and *QRE* show the smallest separation.

**Replication of Behavior.** Compared to earlier experimental studies on CGs,

<sup>53</sup>If Player 1 behaves according to *SPNE* Player 2's behavior is irrelevant. Hence, the 208 experimental points in all columns for *SPNE*-Player 2.

we have changed several features in the procedures in carrying out our experiment. First and most importantly, we apply the strategy method rather than the direct hot-hand method. Second, our subjects played several CGs and we only elicit the initial responses in each game. Third, we only pay for three randomly chosen games. As a result, we first ask whether these features do not distort subjects' behavior *vis-à-vis* other studies.

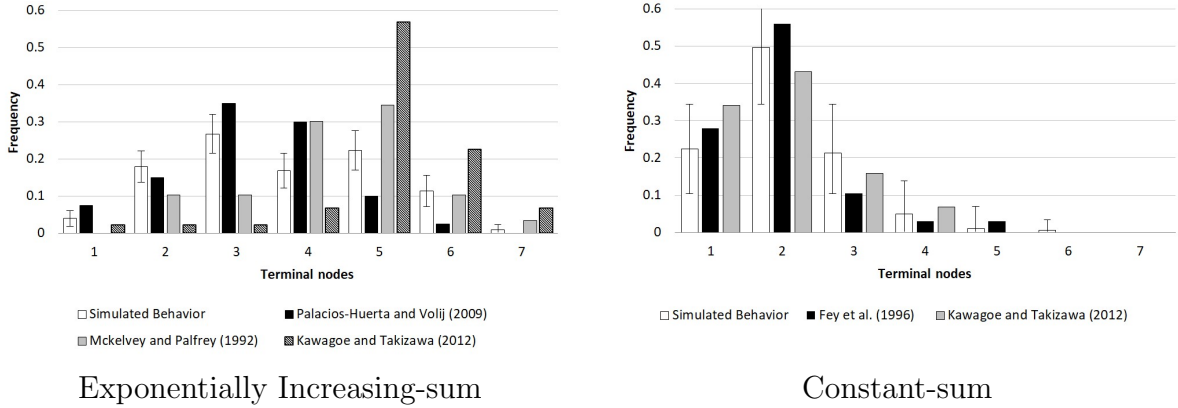


Figure A5: Comparison of Behavior across Different Studies

Our exponentially increasing-sum CG 1 belongs to the most commonly tested variations of CGs. We compare the behavior of our 151 subjects who played the no-feedback, cold version of the game with three other studies. First, we contrast their behavior with the initial lab behavior of students in Palacios-Huerta and Volij (2009). Their subjects (like ours) came from the University of the Basque Country. There were 80 students (40 in each role, as opposed to our 151, 76 as Player 1 and 75 as Player 2) and none of their students came from Economics or Business (whereas ours mostly come from these two fields). Second, we also compare our subjects' behavior with those of the 58 subjects (29 in each player role) in McKelvey and Palfrey (1992). Third, we contrast our data with the obtained in Kawagoe and Takizawa (2012). They do not report the exact number of subjects; we approximate it from the information on the number of sessions and participants in each session. Given the different elicitation methods, we cannot directly compare the behavior. To be able to compare them, we create 100,000 random sub-samples from our data to match the number of subjects in Palacios-Huerta and Volij (2009) and McKelvey and Palfrey (1992), and the approximate number of subjects in Kawagoe and Takizawa (2012), respectively. For each sub-sample, we ran-



domly pair Players 1 and 2 and record the behavior that we would observe if these two individuals interacted. Each of the 100,000 sub-samples thus generates one possible distribution of behavior if our subjects participated in an experiment under the conditions of the studies in the comparison. The white bars in Figure A5, on the left, report the average *simulated* stopping frequencies at a particular decision node in the 100,000 simulated sub-samples corresponding to the conditions of Palacios-Huerta and Volij (2009). The black and grey bars show the *observed* stopping frequencies in Palacios-Huerta and Volij (2009), McKelvey and Palfrey (1992), and Kawagoe and Takizawa (2012), in this order. The horizontal bars present the 95% percentiles of the simulated distributions of behavior under Palacios-Huerta and Volij (2009)'s conditions.<sup>54</sup> It can be seen that the behavior in our experiment is relatively similar to that in the study by Palacios-Huerta and Volij (2009). When it differs, it typically deviates towards the frequencies observed in McKelvey and Palfrey (1992) or Kawagoe and Takizawa (2012), where there is a general tendency to stop somewhat later.

The right-hand side of Figure A5 also compares the corresponding simulated behavior in CG 9 with the initial behavior of the 58 subjects in Fey et al. (1996) and the behavior of the 40-48 (approximated by 44) subjects presented in Kawagoe and Takizawa (2012). The behavior is very similar in all cases.

We thus conclude that the behavior in our CG 1 and 9 is comparable to that of other studies.<sup>55</sup> In CG 1, our observed behavior is particularly close to the one observed in the experiment by Palacios-Huerta and Volij (2009), conducted few years earlier at the same University; in CG 9, our observed behavior is very close to both Fey et al.

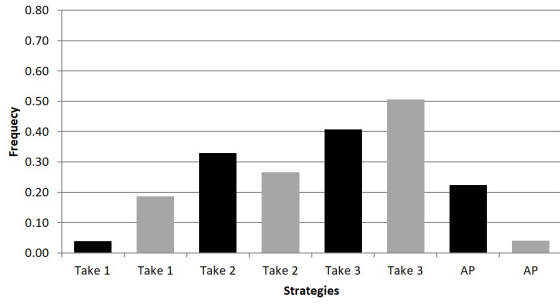
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<sup>54</sup>For the sake of readability, we omit the corresponding simulated behavior for McKelvey and Palfrey's (1992) and Kawagoe and Takizawa (2012) conditions in the figure and only use them for the statistical tests below. Since there are more observations in Palacios-Huerta and Volij (2009), their conditions generate less variability in the simulated behavior and thus present a more conservative comparison.

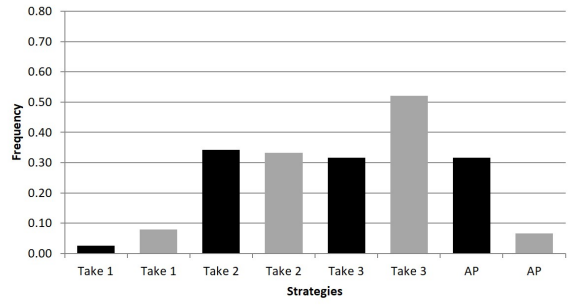
<sup>55</sup>We performed Pearson chi-square tests of independence with two alternative null hypotheses. First, the test of the null hypothesis that the simulated play of different ending nodes in our experiment is not different from the behavior in other studies yields  $p$ -values of 0.38, 0.34, 0.64, 0.00 and 0.56 for the comparison with Palacios-Huerta and Volij (2009), McKelvey and Palfrey (1992), Fey et al. (1996), and the increasing- and constant-sum treatments of Kawagoe and Takizawa (2012), respectively. Second, the test of the null hypothesis that the behavior from other studies come from our simulated play yields  $p$ -values of 0.09, 0.07, 0.49, 0.00 and 0.35 respectively. No test is rejected at conventional 5% significance, with the exception of the increasing-sum treatment of Kawagoe and Takizawa (2012) where subjects stop significantly later than in our and the other studies. Since this difference also arises in the comparison of Kawagoe and Takizawa (2012) with McKelvey and Palfrey (1992) and Palacios-Huerta and Volij (2009), we conclude that the behavior of our subjects does not differ from that in other studies.

(1996) and Kawagoe and Takizawa (2012).

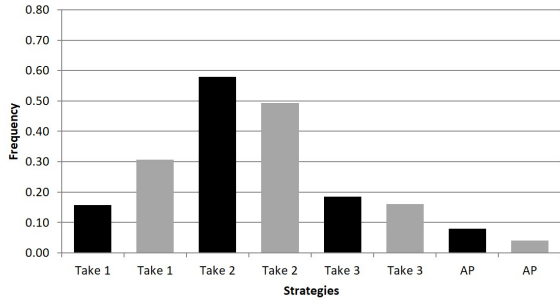
Finally, in a companion study (García-Pola, Iriberri and Kovářík, 2018), we explore whether the hot and cold methods generate the same behavior using four of our CGs: the games CG1, CG9, CG7 and CG16. We observe that both methods yield overall similar behavior in the first few periods. Hence, our design features do not seem to distort subjects' behavior.



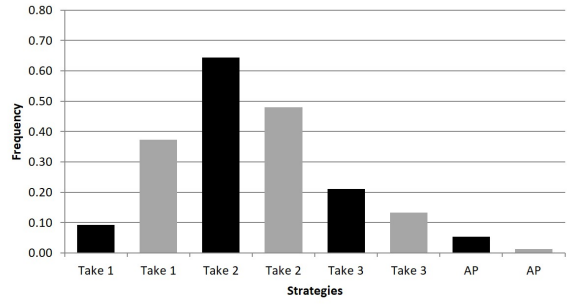
CG 1



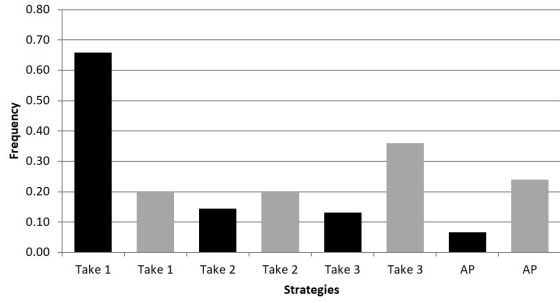
CG 2



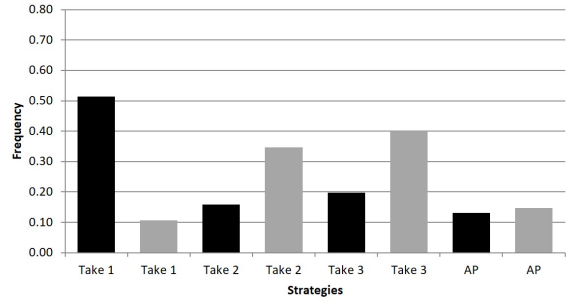
CG 3



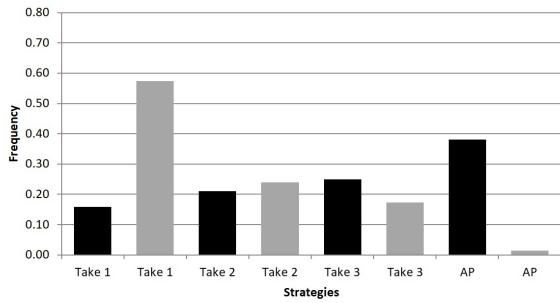
CG 4



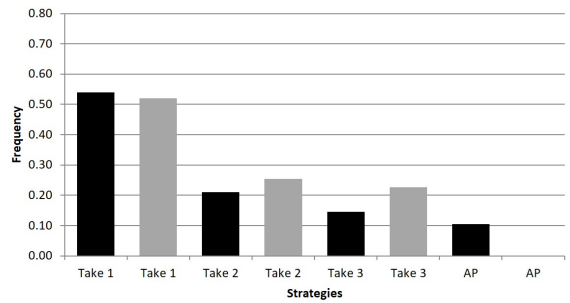
CG 5



CG 6

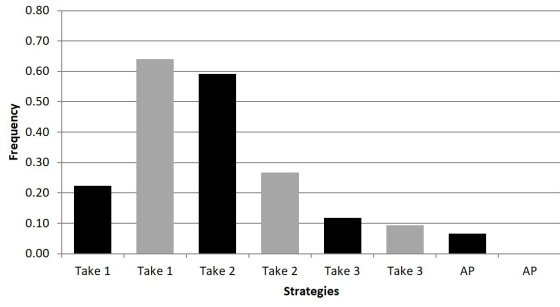


CG 7

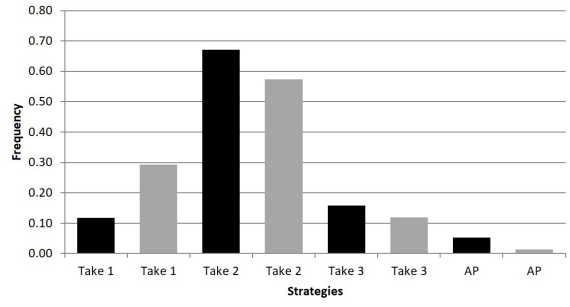


CG 8

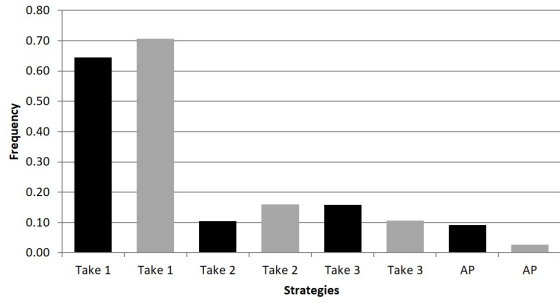
Figure A6: Observed Aggregate Behavior in CGs 1-8.



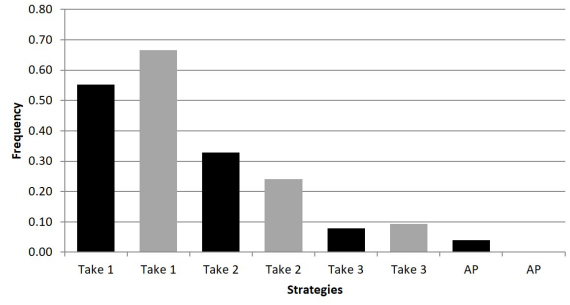
CG 9



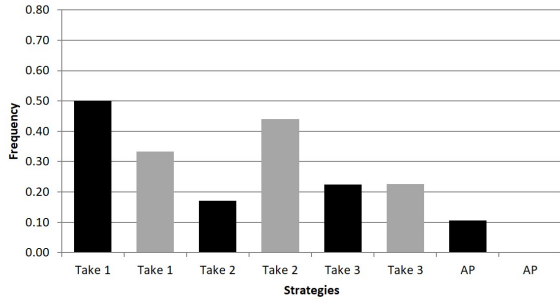
CG 10



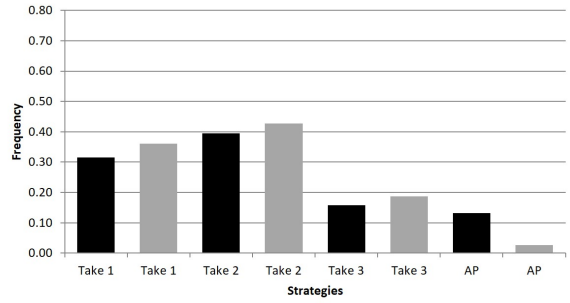
CG 11



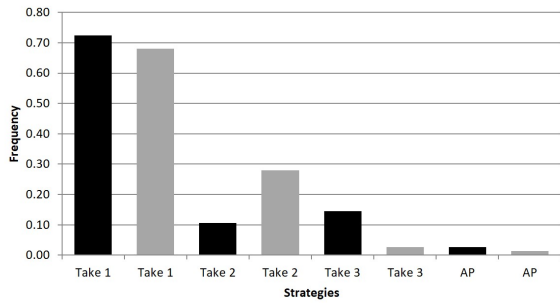
CG 12



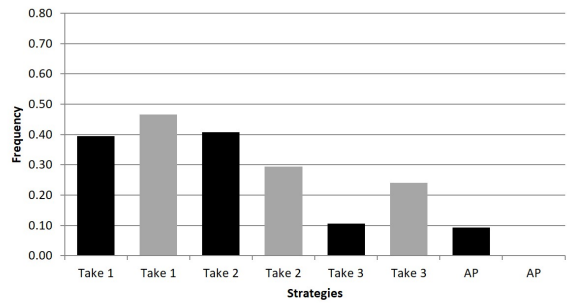
CG 13



CG 14



CG 15



CG 16

Figure A7: Observed Aggregate Behavior in CGs 9-16.

Table A5: Consistency with a Particular Behavioral Model for Different Criteria

	<i>SPNE</i>	<i>A</i> ( $\gamma=.22$ )	<i>IA</i> ( $\rho=.08, \sigma=.55$ )	<i>A</i>	<i>IA</i>	<i>PE</i>	<i>O</i>	<i>L1</i>	<i>L2</i>	<i>L3</i>	<i>QRE</i> (0.38)
0	151	151	151	151	151	151	151	151	151	151	151
1	142	144	142	150	147	151	124	151	149	149	151
2	139	141	139	95	133	124	92	150	148	138	149
3	128	127	127	54	117	78	57	148	145	128	142
4	108	113	108	25	63	35	39	134	136	117	129
5	96	95	94	13	32	10	33	116	123	101	96
6	79	80	77	8	12	7	19	100	110	81	77
7	65	64	62	6	5	3	14	79	85	63	48
8	49	50	47	5	2	3	8	61	53	46	19
9	39	38	36	4	0	2	6	34	24	30	4
10	29	26	26	3	0	2	4	26	9	16	0
11	19	16	17	2	0	0	4	15	4	5	0
12	12	7	12	0	0	0	4	5	2	1	0
13	6	2	5	0	0	0	4	3	0	0	0
14	4	1	2	0	0	0	3	1	0	0	0
15	1	0	0	0	0	0	3	0	0	0	0
16	1	0	0	0	0	0	3	0	0	0	0

*Notes:* The table reports the number of subjects (out of 151) that comply with each of the behavioral models, listed in the first row, for different number of games, as listed in the first column. When the compliance criterion is low, i.e. one game, then the number of subjects that comply with each of the behavioral numbers is close to 151. When the compliance criterion is high, i.e. 15 games, then the number of subjects that comply with each of the behavioral models is lower.

Table A6: Estimation Results with Two *QRE* Types

Type	Original Results		Two <i>QRE</i>	
	$p_k$ (1)	$\varepsilon_k, \lambda$ (2)	$p_k$ (3)	$\varepsilon_k, \lambda$ (4)
<i>SPNE</i>	0.08	0.31	0.09	0.06
<i>O</i>	0.03	0.06	0.03	0.60
<i>L1</i>	0.31	0.60	0.31	0.66
<i>L2</i>	0.21	0.66	0.21	0.62
<i>L3</i>	0.11	0.62	0.10	0.76
<i>QRE 1</i>	0.27	0.42	0.22	0.38
<i>QRE 2</i>			0.06	0.32

*Notes:* The table reports the estimation results for the uniform error specification and the restricted model when one unique *QRE* model is considered, columns 1-2, and when two *QRE* behavioral models are allowed, columns 3 and 4. Columns 1 and 3 present the estimation results on the frequencies for each of the behavioral model. Columns 2 and 4 present the estimation results for the error parameters.

Table A7: Separation of Gang of four model with other behavioral models considered, for different values of  $q$ .

	<i>SPNE</i>	<i>A</i>	<i>IA</i>	<i>PE</i>	<i>O</i>	<i>L1</i>	<i>L2</i>	<i>L3</i>	<i>QRE</i> ( $\lambda=.38$ )
$q = 0.00$	0.91	0.59	0.83	0.47	0.38	0.44	0.70	0.95	0.81
$q = 0.10$	0.91	0.59	0.83	0.47	0.38	0.44	0.70	0.95	0.81
$q = 0.20$	0.80	0.54	0.82	0.47	0.38	0.52	0.56	0.82	0.67
$q = 0.30$	0.78	0.59	0.82	0.53	0.44	0.50	0.50	0.80	0.66
$q = 0.37$	0.78	0.67	0.82	0.58	0.53	0.41	0.48	0.80	0.66
$q = 0.40$	0.78	0.66	0.78	0.58	0.53	0.41	0.47	0.80	0.66
$q = 0.50$	0.78	0.67	0.78	0.60	0.56	0.41	0.42	0.80	0.63
$q = 0.60$	0.73	0.66	0.74	0.58	0.56	0.44	0.42	0.77	0.63
$q = 0.70$	0.70	0.68	0.72	0.59	0.61	0.47	0.41	0.70	0.63
$q = 0.80$	0.66	0.70	0.71	0.58	0.64	0.51	0.43	0.67	0.58
$q = 0.90$	0.65	0.73	0.64	0.65	0.76	0.58	0.48	0.58	0.59
$q = 1.00$	0.00	0.88	0.58	0.87	1.00	0.72	0.66	0.55	0.31

*Notes:* The table reports the separation rates between the Gang of four type and each of the behavioral models listed in the first row for different values of  $q$ . The minimum separation is 0, when two behavioral models predict exactly the same strategy for each of the player roles and each of the centipede games. The maximum separation rate is 1 when two behavioral models predict a different strategy for each of the player roles and each of the centipede games.

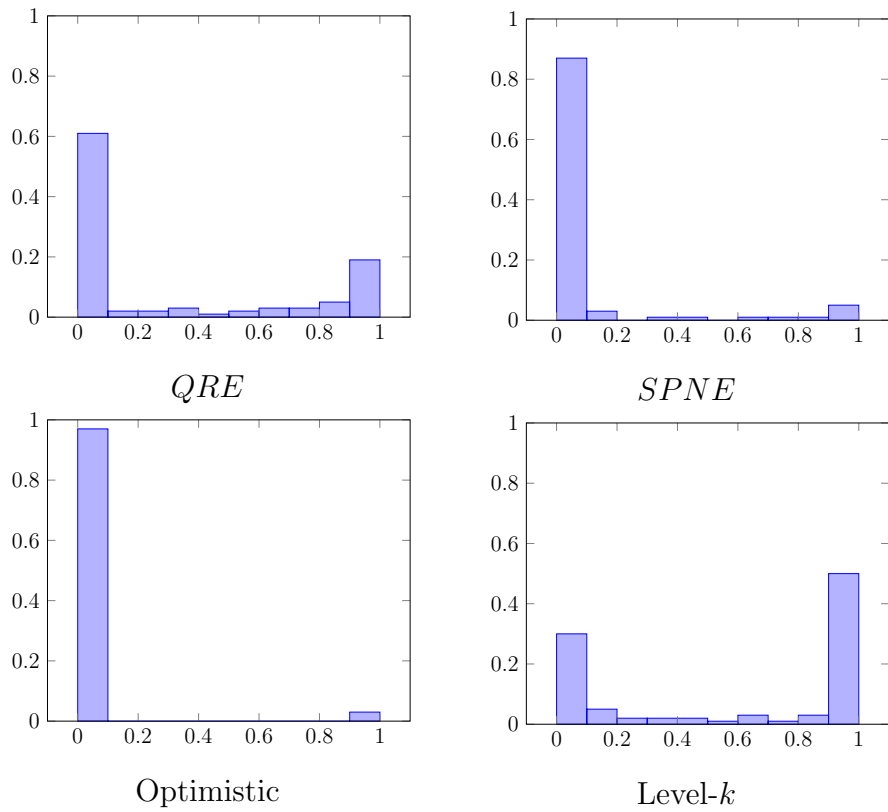


Figure A8: Distribution of per-subject Posterior Probabilities of Belonging to Each Model, Computed for the Reduced Model with the Uniform-error Specification (3-4) in Table 6A. The table shows that a vast majority of subjects is classified with probability close to 1 to one unique rule, suggesting a clean segregation of behavioral types in our data.

Table A8: Estimation Results with 15 in-sample Games. Out-sample CGs 1-8.

Type	Out-sample CG							
	1	2	3	4	5	6	7	8
SPNE ( $p_k$ )	0.10 (0.04)	0.07 (0.03)	0.09 (0.03)	0.09 (0.03)	0.07 (0.03)	0.08 (0.03)	0.09 (0.03)	0.09 (0.03)
O ( $p_k$ )	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)
L1 ( $p_k$ )	0.30 (0.06)	0.31 (0.06)	0.31 (0.06)	0.34 (0.06)	0.30 (0.06)	0.29 (0.05)	0.25 (0.05)	0.31 (0.06)
L2 ( $p_k$ )	0.13 (0.06)	0.20 (0.06)	0.17 (0.06)	0.18 (0.05)	0.26 (0.07)	0.25 (0.06)	0.22 (0.05)	0.19 (0.05)
L3 ( $p_k$ )	0.08 (0.05)	0.12 (0.05)	0.09 (0.05)	0.09 (0.05)	0.09 (0.04)	0.05 (0.04)	0.03 (0.04)	0.15 (0.06)
QRE ( $p_k$ )	0.36 (0.05)	0.27 (0.05)	0.30 (0.05)	0.28 (0.04)	0.25 (0.05)	0.31 (0.05)	0.39 (0.06)	0.24 (0.05)
SPNE ( $\varepsilon_k$ )	0.31 (0.09)	0.24 (0.14)	0.35 (0.08)	0.33 (0.08)	0.26 (0.07)	0.27 (0.06)	0.33 (0.07)	0.33 (0.09)
O ( $\varepsilon_k$ )	0.07 (0.13)	0.07 (0.09)	0.07 (0.10)	0.07 (0.14)	0.07 (0.11)	0.07 (0.08)	0.07 (0.14)	0.07 (0.14)
L1 ( $\varepsilon_k$ )	0.60 (0.04)	0.60 (0.10)	0.61 (0.04)	0.65 (0.04)	0.60 (0.05)	0.58 (0.05)	0.57 (0.05)	0.59 (0.04)
L2 ( $\varepsilon_k$ )	0.60 (0.11)	0.65 (0.17)	0.68 (0.12)	0.63 (0.05)	0.59 (0.05)	0.60 (0.05)	0.64 (0.08)	0.66 (0.12)
L3 ( $\varepsilon_k$ )	0.89 (0.17)	0.62 (0.05)	0.62 (0.15)	0.65 (0.13)	0.79 (0.17)	0.92 (0.18)	0.99 (0.19)	0.58 (0.10)
QRE ( $\lambda$ )	0.32 (0.09)	0.43 (0.08)	0.41 (0.07)	0.43 (0.11)	0.44 (0.11)	0.38 (0.09)	0.25 (0.08)	0.42 (0.14)

*Notes:* The table reports the estimation results for the uniform error specification and the restricted model when one of the centipede games has been taken out (the one listed in the first row). A particular number in row  $i$  and column  $j$ , the table shows the estimated coefficient on the parameter specified in row  $i$  when the game in column  $j$  was taken out. The number in parenthesis present



Table A9: Estimation Results with 15 in-sample Games. Out-sample CGs 9-16

Type	Out-sample game							
	9	10	11	12	13	14	15	16
SPNE ( $p_k$ )	0.08 (0.04)	.011 (0.03)	0.09 (0.03)	0.09 (0.03)	0.07 (0.03)	0.07 (0.03)	0.04 (0.03)	0.08 (0.03)
O ( $p_k$ )	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)	0.03 (0.01)
L1 ( $p_k$ )	0.28 (0.05)	0.33 (0.05)	0.30 (0.05)	0.30 (0.05)	0.30 (0.05)	0.34 (0.06)	0.29 (0.05)	0.30 (0.05)
L2 ( $p_k$ )	0.23 (0.07)	0.18 (0.06)	0.21 (0.06)	0.18 (0.06)	0.21 (0.07)	0.20 (0.07)	0.25 (0.06)	0.23 (0.06)
L3 ( $p_k$ )	0.14 (0.06)	0.05 (0.04)	0.03 (0.04)	0.10 (0.05)	0.15 (0.05)	0.10 (0.05)	0.15 (0.06)	0.10 (0.05)
QRE ( $p_k$ )	0.25 (0.05)	0.30 (0.06)	0.35 (0.05)	0.30 (0.05)	0.24 (0.05)	0.27 (0.05)	0.23 (0.06)	0.26 (0.05)
SPNE ( $\varepsilon_k$ )	0.32 (0.10)	0.32 (0.06)	0.34 (0.08)	0.34 (0.09)	0.29 (0.08)	0.30 (0.07)	0.19 (0.11)	0.31 (0.11)
O ( $\varepsilon_k$ )	0.07 (0.10)	0.07 (0.10)	0.05 (0.15)	0.04 (0.15)	0.07 (0.20)	0.07 (0.16)	0.05 (0.11)	0.07 (0.13)
L1 ( $\varepsilon_k$ )	0.59 (0.04)	0.62 (0.05)	0.60 (0.04)	0.60 (0.04)	0.59 (0.04)	0.62 (0.04)	0.61 (0.04)	0.56 (0.04)
L2 ( $\varepsilon_k$ )	0.65 (0.09)	0.66 (0.09)	0.65 (0.06)	0.66 (0.06)	0.62 (0.08)	0.63 (0.08)	0.66 (0.06)	0.69 (0.08)
L3 ( $\varepsilon_k$ )	0.58 (0.12)	0.61 (0.16)	0.99 (0.15)	0.69 (0.12)	0.60 (0.12)	0.59 (0.15)	0.65 (0.08)	0.55 (0.11)
QRE ( $\lambda$ )	0.43 (0.15)	0.26 (0.10)	0.26 (0.10)	0.27 (0.13)	0.43 (0.14)	0.42 (0.14)	0.58 (0.14)	0.38 (0.12)

*Notes:* The table reports the estimation results for the uniform error specification and the restricted model when one of the centipede games has been taken out (the one listed in the first row). A particular number in row  $i$  and column  $j$ , the table shows the estimated coefficient on the parameter specified in row  $i$  when the game in column  $j$  was taken out. The number in parenthesis present the standard errors.

Table A10: The Proportional Improvement of the Log-likelihoods Explaining Behavior out-of-sample, with respect to Random Behavior. Each column corresponds to one out-of-sample game; the rows list the different models. Level- $k$  corresponds to a mixture of  $L1$ ,  $L2$ , and  $L3$ .

	Game predicted									
	1	2	3	4	5	6	7	8	9	10
Mixture	0.05	0.12	0.05	0.13	0.13	0.04	0.10	0.11	0.17	0.15
QRE	-0.60	-1.00	-0.06	0.17	0.13	-0.08	-0.22	0.13	0.19	0.15
SPNE	-0.10	-0.14	-0.04	-0.04	0.05	0.00	0.02	0.09	0.05	-0.05
O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lk	0.04	0.05	0.07	0.10	0.08	0.06	0.03	0.04	0.21	0.14

	11	12	13	14	15	16	Mean	St.dev.	St.Er.
Mixture	0.18	0.22	0.09	0.08	0.24	0.13	0.12	0.06	0.01
QRE	0.09	0.18	0.11	0.08	0.32	0.12	-0.02	0.34	0.08
SPNE	0.14	0.12	0.05	0.01	0.15	0.05	0.02	0.08	0.02
O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lk	0.18	0.22	-0.10	-0.04	0.28	0.03	0.09	0.10	0.02

*Notes:* The table reports the proportional improvement of the log-likelihoods explaining behavior out-of sample. The benchmark model is random uniform behavior. Each column corresponds to the case in which one game is taken out. The rows list the different behavioral models. Level-k corresponds to a mixture of  $L1$ ,  $L2$ , and  $L3$ .

## Appendix B: Instructions in English (original in Spanish)

THANK YOU FOR PARTICIPATING IN OUR EXPERIMENT!

This is an experiment, so there is to be no talking, looking at what other participants are doing or walking around the room. Please, turn off your phone. If you have any questions or you need help, please raise your hand and one of the researchers will assist you. Please, do not write on these instructions. If you fail to follow these rules, YOU WILL BE ASKED TO LEAVE THE EXPERIMENT AND YOU WILL NOT BE PAID. Thank you.

The University of the Basque Country has provided the funds for this experiment. You will receive 3 Euros for arriving on time. Additionally, if you follow the instructions correctly you have the chance of earning more money. This is a group experiment. Different participants may earn different amounts. How much you can win depends on your own choices, on other participants choices, and on chance.

No participant can identify any other participant by his/her decisions or earnings in the experiment. The researchers can observe each participant earnings, but they will not associate your decisions with the name of participant name.

During the experiment you can win experimental points. At the end, these exper-

experimental points will be converted into cash at a rate of 1 experimental point = 0.10 euros. Everything you earn will be paid in cash, in a strictly private way at the end of the experimental session.

Your final earnings will be the sum of the 3 Euros that you get just for participating and the amount that you earn during the experiment.

Each experimental point earns you 10 Euro cents, so 10 experimental points make 1 euro ( $10 \times 0,10 = 1$  Euro).

For example, if you obtain a total of 80 experimental points you will earn a total of 11 Euros (3 for participating plus 8 from converting the 80 experimental points into cash).

For example, if you obtain a total of 45 experimental points you will earn a total of 7.5 Euros ( $45 \times 0.10 = 4.5 + 3 = 7.5$ )

For example, if you obtain a total of 190 experimental points you will earn a total of 22 euros ( $190 \times 0.10 = 19 + 3 = 22$ )

Groups:

All participants in these sessions will be randomly divided in two different groups, the RED group and the BLUE group. Before you start making decisions, you will be informed if you are RED or BLUE, and you will maintain that status throughout the experiment. Each participant in the RED group will be randomly matched with a BLUE participant.

Game and options:

The experiment will consist of 16 games. In each game you will be matched randomly with a participant from other group. Nobody will know the identity of the participant with whom you are matched, nor will it be possible to identify him/her by his/her decisions during or after the experiment.

A description of the games follows. Every game has the same format, as represented in graphic form below.

If you are a RED participant, you will see this version of the game, where you can choose between the red circles only.

If you are a BLUE participant, you will see this other version of the game, where you can choose between the blue circles only.

In each game, each participant, RED or BLUE, has three chances to determine the earnings of both participants, in which he/she can choose one of two actions: stop or

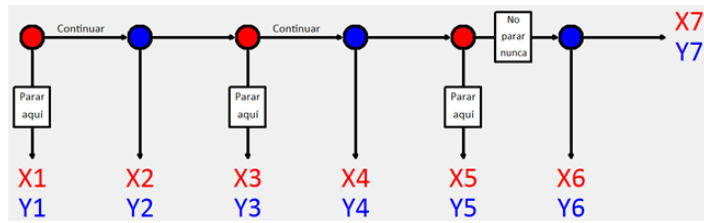


Figure A9: ROJO

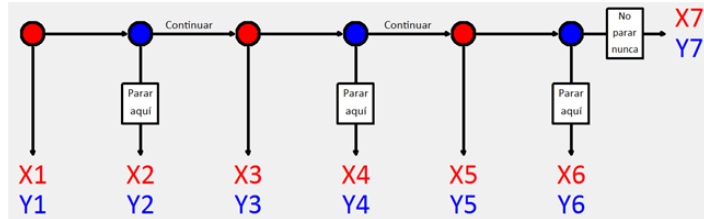


Figure A10: AZUL

continue. In the graphic representation, the circles colored, RED and BLUE, identify which participant chooses. As the direction of the arrows shows, the game should be read from left to right. The earnings of the two participants are represented by X and Y, which in each circle of each game will be different numbers, representing experimental points.

The RED participant has the first chance to choose: he/she can “Stop here” or continue. In the graphic representation the downward arrow in the first RED circle represents “Stop” and the rightward arrow represents continue. If the RED participant chooses “Stop here”, the RED participant receives X1 and the BLUE participant Y1, and the game ends. If the RED participant does not choose “Stop here”, then the game continues and it is the BLUE participant who chooses in the first blue circle.

The BLUE participant can choose “Stop” or continue. In the graphic representation, the downward arrow in the first BLUE circle represents “Stop here” and the rightward arrow represents continue. If the BLUE participant chooses “Stop here” the RED participant receives X2 and the BLUE participant Y2, and the game ends. If the BLUE participant does not choose “Stop here”, then the game continues and it is the RED participant who chooses again in the second red circle

This description is repeated in the second red and blue circles, until the last chance is reached by the RED and BLUE participants.

In the last chance for the RED participant, represented by the third and last red

circle, the RED participant can choose “Stop here” or “Never stop”. If the RED participant chooses “Stop here” the RED participant receives X5 and the BLUE participant Y5, and the game ends. If the RED participant chooses “Never stop”, then it is the BLUE participant who chooses for the last time.

In the last chance for the BLUE participant, represented by the third and last blue circle, the game ends. If the BLUE participant chooses ”Stop here” each participant receives, X6 for the RED and Y6 for the BLUE, and the game ends. If the BLUE participant chooses “Never stop” the game ends and the quantities that the participants receive are X7 for the RED and Y7 for the BLUE.

In summary, in each game you have to choose where to stop or whether not to stop. That means that in each game you can choose between four different options: stop in the first circle of your color, stop in the second circle of your color, stop in the third circle of your color, or “Never stop”. The quantities change on each occasion and the participant who chooses “Stop here” before the other participant is the one who ends the game and determines the experimental points earned by both participants.

In order to make the game easier to understand, three examples are shown below. In the examples we show a choice by the RED participant (shaded in red) and one by the BLUE (shaded in blue) for a hypothetical game, and we identify the earnings for each participant.

Example 1:

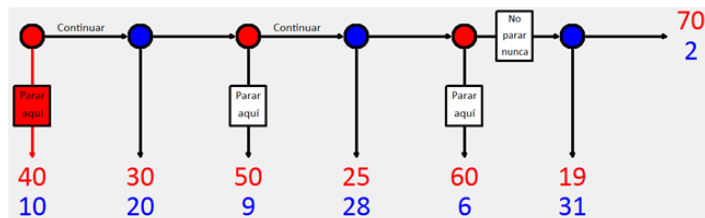


Figure A11: Ejemplo 1(ROJO)

The RED participant has chosen “Stop” in the first red circle and the BLUE participant has chosen “Stop” in the first blue circle. Because the RED participant has stopped before the BLUE participant:

The RED participant earns: 40

The BLUE participant earns: 10

Example 2:

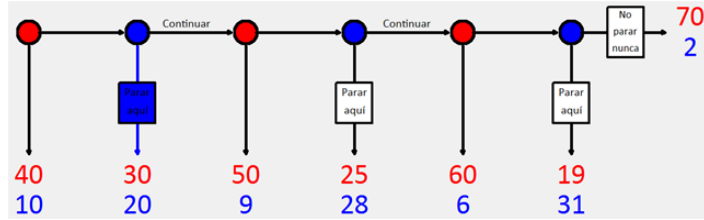


Figure A12: Ejemplo 1(AZUL)

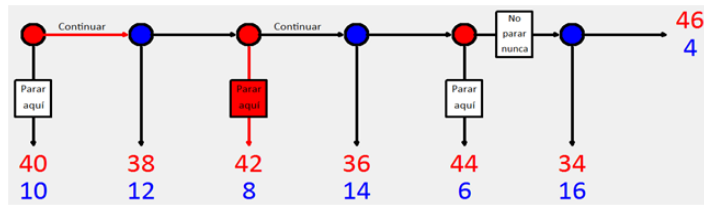


Figure A13: Ejemplo 2(ROJO)

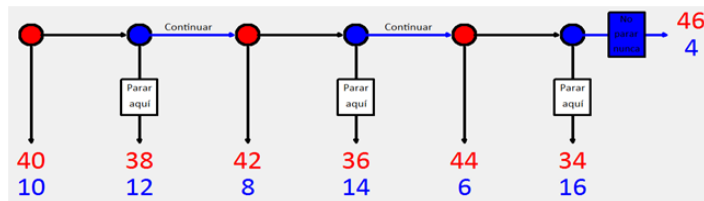


Figure A14: Ejemplo 2(AZUL)

The RED participant has chosen “Stop” in the second red circle and the BLUE participant has chosen “Never stop”. Because the RED participant has stopped before the BLUE participant:

The RED participant earns: 42

The BLUE participant earns: 8

Example 3:

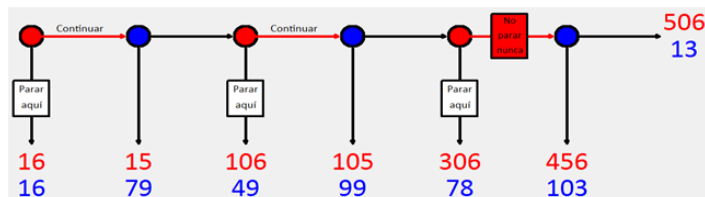


Figure A15: Ejemplo 3(ROJO)

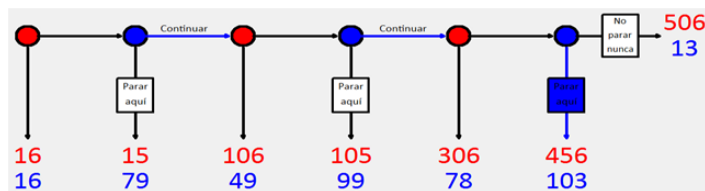


Figure A16: Ejemplo 3(AZUL)

The RED participant has chosen “Never stop” and the BLUE participant has chosen stop in the third blue circle. Because the BLUE participant has stopped before the RED participant:

The RED participant earns: 456

The BLUE participant earns: 103

Note: These examples are just an illustration. The experimental points that appear are examples, i.e. they are not necessarily the ones that will appear in the 16 games. In addition, the examples ARE NOT intended to suggest how anyone should choose between the different options.

How the computer works: In each game, you will see 4 white boxes, one for each of your possible options. To choose an option, click on the corresponding box. When you have selected an option, the box will change color, as shown in the examples. This choice is not final: you can change it whenever you want by clicking on other box as long as you have not yet clicked the “OK” button that will appear in the bottom-left

corner of each screen. Once you click “OK” your choice will be final and you will move on to the next game. You cannot pass on to the next game until you have chosen an option and have clicked “OK”.

Earnings:

Once you have submitted your choices in the 16 games, the computer chooses three games at random for each participant for payment. You will be paid depending on the actions that you chose and the ones that the participant you were matched with chose in each of those three games.

Summary:

- The computer will choose randomly whether you are a RED or BLUE participant for the whole experiment.
- You will participate in 16 different games and in each of them you will be matched randomly with a participant of the other color.
- In each game, each participant can choose between four different options: stop in the first circle of his/her color, stop in the second circle of his/her color, stop in the third circle of his/her color or “Never stop”. The quantities change on each occasion and the participant that chooses “Stop here” before the other participant is the one that ends the game and determines the experimental points for both participants.
- At the end, the computer will randomly choose 3 of the 16 games for each player, and you will be paid depending on the actions chosen by you and by the participant you were matched to in each of those three games.

The experiment will start shortly. If you have any questions or you need help, please, raise your hand and one of the researchers will help you.