

### Abstract

This paper investigates multi-person tournaments both theoretically and experimentally. It asks, and attempts to answer three questions: 1) As the size of a tournament grows through replication (i.e. at any level as the number of large prizes grow proportionally with the number of people at that level), what happens to the effort of agents? 2) If the size of the tournament is held fixed, what happens to effort levels as the fraction of large prizes in it changes? 3) If discrimination exists within a tournament in the sense that a fraction  $\zeta$ , of the workers are discriminated against by having to significantly outperform non-discriminated workers in order to get a large prize, what happens to output as tournament size increases with the fraction  $\zeta$  held constant? We find that while the results of our experiment support the theory in most instances, the deviations from the theory we find raise a series of interesting questions about the proper design of corporate compensation mechanisms.

KEY WORDS: Tournaments, Economic Experiments, Incentives

JEL CLASSIFICATION : C91, J33, C72