

# Field and Lab Convergence in Poisson LUPI Games\*

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SSE/EFI Working Paper Series in Economics and Finance No. 671

## Abstract

In the lowest unique positive integer (LUPI) game, players pick positive integers and the player who chose the lowest unique number (not chosen by anyone else) wins a fixed prize. We derive theoretical equilibrium predictions, assuming fully rational players with Poisson-distributed uncertainty about the number of players. We also derive predictions for boundedly rational players using quantal response equilibrium and a cognitive hierarchy of rationality steps with quantal responses. The theoretical predictions are tested using both field data from a Swedish gambling company, and laboratory data from a scaled-down version of the field game. The field and lab data show similar patterns: in early rounds, players choose very low and very high numbers too often, and avoid focal (“round”) numbers. However, there is some learning and a surprising degree of convergence toward equilibrium. The cognitive hierarchy model with quantal responses can account for the basic discrepancies between the equilibrium prediction and the data.

JEL CLASSIFICATION: C72, C92, L83, C93.

KEYWORDS: Population uncertainty, Poisson game, QRE, congestion game, guessing game, experimental methods, behavioral game theory, cognitive hierarchy.

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\*The first two authors, Joseph Tao-yi Wang and Robert Östling, contributed equally to this paper. We are grateful for helpful comments from Tore Ellingsen, Magnus Johannesson, Botond Köszegi, David Laibson, Erik Lindqvist, Stefan Molin, Noah Myung, Rosemarie Nagel, Charles Noussair, Carsten Schmidt, Dmitri Vinogradov, Mark Voorneveld, Jörgen Weibull, seminar participants at California Institute of Technology, Mannheim Empirical Research Summer School 2007, and UC Santa Barbara Cognitive Neuroscience Summer School 2007. Robert Östling gratefully acknowledges financial support from the Jan Wallander and Tom Hedelius Foundation. Colin Camerer acknowledges support from the NSF HSD program, HSFP, and the Betty and Gordon Moore Foundation.

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# 1 Introduction

In early 2007, a Swedish gambling company introduced a simple lottery. In the lottery, players simultaneously choose positive integers from 1 to  $K$ . The winner is the player who chooses the lowest number that nobody else picked. We call this the LUPI game<sup>1</sup>, because the *lowest unique positive integer* wins. This paper analyzes LUPI theoretically and reports data from the Swedish field experience and from parallel lab experiments.

LUPI is not an exact model of anything in the political economy, but it combines strategic features of other important naturally-occurring games. For example, in games with congestion, a player's payoffs are lower if others choose the same strategy (e.g., Rosenthal, 1973). Examples include choices of traffic routes and research topics, or buyers and sellers choosing among multiple markets. LUPI has the property of an extreme congestion game, in which having even one other player choose the same number reduces one's payoff to zero. However, LUPI is not a congestion game as defined by Rosenthal (1973) since the payoff from choosing a particular number does not only depend on how many other players that picked that number, but also on how many that picked lower numbers.

The closest analogues to LUPI in the economy are lowest unique bid auctions (see Eichberger and Vinogradov, 2007). In these auctions, an object is sold to the *lowest* bidder (rather than the highest bidder) whose bid is unique. LUPI removes the complications resulting from private valuations in these auctions and focuses on the essential strategic conflict: players want to choose low numbers, in order to be the lowest, but also want to avoid numbers others will choose, in order to be unique.

While LUPI is an artificial game that was not designed to model a familiar economic situation, it is interesting to study for several reasons.

First, since game-theoretic reasoning is generally hoped to apply universally across many classes of games, studying its application in an artificial game (where predictions are clear and bold) is scientifically useful. And since the number of players who participate in the Swedish lottery is not fixed, analyzing the LUPI game presents an opportunity to empirically test theory in which the number of players is Poisson-distributed (Myerson, 1998) for the first time.

Second, the clear structure of the Swedish LUPI lottery allows us to create a parallel lab experiment. This parallelism provides a rare opportunity to see whether an experiment deliberately designed to replicate the empirical regularities observed in a particular field setting can lead to comparable findings. The field and lab conclusions are very similar. The strengths of each of the lab and field methods also compensate for weaknesses in the

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<sup>1</sup>The Swedish company called the game Limbo, but we think LUPI is more apt and mnemonic.

other method. In the field data, there is no way of knowing if the assumption that the number of players is Poisson-distributed is plausible, whether there is collusion, and how individual players differ and learn. All these concerns can be controlled for or measured in the lab. In the lab, it is expensive to produce a large sample; there is substantially more data from the field (more than two million choices).

Third, the simple structure of the LUPI game means it is possible to compare Poisson-equilibrium predictions with precise predictions of two parametric models of boundedly rational play—quantal response equilibrium, and a level- $k$  cognitive hierarchy approach. The field and lab choices are reasonably close to those predicted by equilibrium. However, players typically choose more low and high numbers than predicted, and the cognitive hierarchy approach can account for those deviations.

The next section provides a theoretical analysis of a simple form of the LUPI game, including the (symmetric) Poisson-Nash equilibrium, quantal response equilibrium and cognitive hierarchy behavioral models. Section 3 and 4 analyze the data from the field and the lab, respectively. Section 5 discusses the issues concerning field vs. lab, and section 6 concludes the paper.

## 2 Theory

In the simplest form of LUPI, the number of players,  $N$ , has a known distribution, the players choose integers from 1 to  $K$  simultaneously, and the lowest unique number wins. The winner earns a payoff of 1, while all others earn 0.<sup>2</sup>

We first analyze the game when players are assumed to be fully rational, best-responding, and have equilibrium beliefs. We focus on symmetric equilibria since players both in the field and lab are generally anonymous to each other. We also assume the number of players is a random variable that has a Poisson distribution, which is a plausible approximation (and can be exactly implemented in the lab) and much easier to work with analytically. Appendix A and B discusses the fixed- $n$  equilibrium and why it is so much more difficult to compute than the Poisson-Nash equilibrium.

We then discuss the quantal response equilibrium (QRE), and predictions from a cognitive hierarchy model with quantal response.

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<sup>2</sup>In this stylized case, we assume that if there is no lowest unique number there is no winner. This simplifies the analysis because it means that only the probability of being unique must be computed. In the Swedish game, if there is no unique number then the players who picked the least-frequently-chosen number share the top prize. This is just one of many small differences between the simplified game analyzed in this section and the game as played in the field, which are discussed further below.

## 2.1 Properties of Poisson Games

Since players do not know the number of total bets in both the field and lab versions of the LUPI game,<sup>3</sup> we analyze the game under population uncertainty using the theory of Poisson games developed by Myerson (1998, 2000). In this section, we briefly summarize the basic properties of Poisson games, which are then used in the next section to characterize the Poisson equilibrium in the LUPI game. (To the best of our knowledge, this paper is also the first to test Poisson game predictions empirically.)

Games with population uncertainty relax the assumption that the exact number of players is common knowledge. In particular, in a *Poisson game* the number of players  $N$  is a random variable that follows a Poisson distribution with mean  $n$ . We have

$$N \sim \text{Poisson}(n) : N = k \text{ with probability } \frac{e^{-n}n^k}{k!}$$

and, in the case of a Bayesian game, players' types are independently determined according to the probability distribution  $r = (r(t))_{t \in T}$  on some type space  $T$ . Let a type profile be a vector of non-negative integers listing the number of players of each type  $t$  in  $T$ , and let  $Z(T)$  be the set of all such type profiles in the game. Combining  $N$  and  $r$  can describe the *population uncertainty* with the distribution  $y \sim Q(y)$  where  $y \in Z(T)$  and  $y(t)$  is the number of players of type  $t \in T$ .

Players have a common finite action space  $C$  with at least two alternatives, which generates an *action profile*  $Z(C)$  containing the number of players that choose each action. Utility is a bounded function  $U : Z(C) \times C \times T \rightarrow \mathbb{R}$ , where  $U(x, b, t)$  is the payoff of a player with type  $t$ , choosing action  $b$ , and facing an opponent action profile of  $x$ . Let  $x(c)$  denote the number of other players playing action  $c \in C$ .

Myerson (1998) shows that the Poisson distribution has two important properties that are relevant for Poisson games and simplify computations dramatically. The first is the *decomposition property*, which in the case of Poisson games imply that the distribution of type profiles for any  $y \in Z(T)$  is given by

$$Q(y) = \prod_{t \in T} \frac{e^{-nr(t)}(nr(t))^{y(t)}}{y(t)!}.$$

Hence,  $\tilde{Y}(t)$ , the random number of players of type  $t \in T$ , is Poisson with mean  $nr(t)$ , and is independent of  $\tilde{Y}(t')$  for any other  $t' \in T$ . Moreover, suppose each player independently plays the mixed strategy  $\sigma$ , choosing action  $c \in C$  with probability  $\sigma(c|t)$  given his type  $t$ .

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<sup>3</sup>Players in the field could get information about the current number of bets that had been made so far during the day. Players that bet before the game closed for the day, however, could not know with certainty the total number of players that would participate in that day.

Then, by the decomposition property, the number of players of type  $t$  that chooses action  $c$ ,  $\bar{Y}(c, t)$ , is Poisson with mean  $nr(t)\sigma(c|t)$  and is independent of  $\bar{Y}(c', t')$  for any other  $c', t'$ .

The second property of Poisson distributions is the *aggregation property* which states that any sum of independent Poisson random variables is Poisson distributed. This property implies that the number of players (across all types) who choose action  $c$ ,  $\tilde{X}(c)$ , is Poisson with mean  $\sum_{t \in T} nr(t)\sigma(c|t)$ , independent of  $\tilde{X}(c')$  for any other  $c' \in C$ . We refer to this property of Poisson games as the *independent actions* (IA) property.

Myerson (1998) also shows that the Poisson game has another useful property: *environmental equivalence* (EE). Environmental equivalence means that conditional on being in the game, a type  $t$  player would perceive the population uncertainty as an outsider would, i.e.,  $Q(y)$ .<sup>4</sup> If the strategy and type spaces are finite, Poisson games are the only games with population uncertainty that satisfy both IA and EE (Myerson, 1998).

A (symmetric) *equilibrium* for the Poisson game is defined as a strategy function  $\sigma$  such that every type assigns positive probability only to actions that maximize the expected utility for players of this type; that is, for every action  $c \in C$  and every type  $t \in T$ ,

$$\text{if } \sigma(c|t) > 0 \text{ then } \bar{U}(c|t, \sigma) = \max_{b \in C} \bar{U}(b|t, \sigma)$$

for the expected utility

$$\bar{U}(b|s, \sigma) = \sum_{x \in Z(C)} \prod_{c \in C} \left( \frac{e^{-n\tau(c)} (n\tau(c))^{x(c)}}{x(c)!} \right) U(x, b, s)$$

where

$$\tau(c) = \sum_{t \in T} r(t)\sigma(c|t)$$

is the marginal probability that a random sampled player will choose action  $c$  under  $\sigma$ .

Myerson (1998) proves existence of equilibrium under all games of population uncertainty with finite action and type spaces, which includes the Poisson game.<sup>5</sup> Note that the equilibria in games with population uncertainty must be symmetric in the sense that each type plays the same strategy. This existence result provides the basis for the following characterization of the Poisson-Nash equilibrium and the cognitive hierarchy model with quantal responses.

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<sup>4</sup>In particular, for a Poisson game, the number of opponents he faces is also a random variable of Poisson( $n$ ).

<sup>5</sup>For infinite types, Myerson (2000) proves existence of equilibrium for Poisson games alone.

## 2.2 Poisson-Nash Equilibrium for the LUPI Game

In the symmetric Poisson-Nash equilibrium, all players employ the same mixed strategy  $\mathbf{p} = (p_1, p_2, \dots, p_K)$  where  $\sum_{i=1}^K p_i = 1$ . Let the random variable  $X(k)$  be the number of players who pick  $k$  in equilibrium. Then,  $Pr(X(k) = i)$  is the probability that the number of players who pick  $k$  in equilibrium is  $i$ . By environmental equivalence,  $Pr(X(k) = i)$  would also be the probability that  $i$  opponents pick  $k$ . Hence, the expected payoffs for choosing different numbers are:<sup>6</sup>

$$\begin{aligned}\pi(1) &= Pr(X(1) = 0) = e^{-np_1} \\ \pi(2) &= Pr(X(1) \neq 1) \cdot Pr(X(2) = 0) \\ \pi(3) &= Pr(X(1) \neq 1) \cdot Pr(X(2) \neq 1) \cdot Pr(X(3) = 0) \\ &\vdots \\ \pi(k) &= \prod_{i=1}^{k-1} Pr(X(i) \neq 1) \cdot Pr(X(k) = 0) \\ &= \prod_{i=1}^{k-1} [1 - np_i e^{-np_i}] \cdot e^{-np_k}\end{aligned}$$

for all  $k > 1$ . If both  $k$  and  $k + 1$  are chosen with positive probability in equilibrium, then  $\pi(k) = \pi(k + 1)$ . Rearranging this equilibrium condition implies

$$e^{np_{k+1}} = e^{np_k} - np_k. \quad (1)$$

In addition to this condition, the probabilities must sum up to one and the expected payoff from playing numbers not in the support of the equilibrium strategy cannot be higher than the numbers played with positive probability.

The three equilibrium conditions allows us to characterize the equilibrium and show that it is unique.

**Proposition 1** *There is a unique equilibrium  $\mathbf{p} = (p_1, p_2, \dots, p_K)$  of the Poisson LUPI game that satisfies the following properties:*

1. *Full support:  $p_k > 0$  for all  $k$ .*
2. *Decreasing probabilities:  $p_{k+1} < p_k$  for all  $k$ .*
3. *Convexity/concavity:  $(p_k - p_{k+1})$  is increasing in  $k$  for  $p_k < 1/n$  and decreasing in  $k$  for  $p_k > 1/n$ .*

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<sup>6</sup>Recall that winner's payoff is normalized to 1, and others are 0.

4. *Convergence to uniform play: for any fixed  $K$ ,  $n \rightarrow \infty$  implies  $p_{k+1} \rightarrow p_k$ .*

**Proof.** We first prove the four properties and then prove that the equilibrium is unique.

1. We prove this property by induction. For  $k = 1$ , we must have  $p_1 > 0$ . Otherwise, deviating from the proposed equilibrium by choosing 1 would guarantee winning for sure. Now suppose that there is some number  $k+1$  that is not played in equilibrium, but that  $k$  is played with positive probability. We show that  $\pi(k+1) > \pi(k)$ , implying that this cannot be an equilibrium. To see this, note that the expressions for the expected payoffs allows us to write the ratio  $\pi(k+1)/\pi(k)$  as

$$\begin{aligned} \frac{\pi(k+1)}{\pi(k)} &= \frac{\prod_{i=1}^k Pr(X(i) \neq 1) \cdot Pr(X(k+1) = 0)}{\prod_{i=1}^{k-1} Pr(X(i) \neq 1) \cdot Pr(X(k) = 0)} \\ &= \frac{Pr(X(k) \neq 1) \cdot Pr(X(k+1) = 0)}{Pr(X(k) = 0)}. \end{aligned}$$

If  $k+1$  is not used in equilibrium,  $Pr(X(k+1) = 0) = 1$ , implying that the ratio is above one. This shows that all integers between 1 and  $K$  are played with positive probability in equilibrium.

2. Rewrite equation (1) as

$$e^{np_{k+1}} - e^{np_k} = -np_k.$$

By the first property, both  $p_k$  and  $p_{k+1}$  are positive, so that the right hand side is negative. Since the exponential is an increasing function, we conclude that  $p_k > p_{k+1}$ .

3. First rearrange equation (1) as

$$p_{k+1} = p_k + \frac{1}{n} \ln(1 - np_k e^{-np_k}). \quad (2)$$

We want to determine  $(p_k - p_{k+1}) / (p_{k+1} - p_{k+2})$ . Using (2) we can write this ratio as

$$\frac{p_k - p_{k+1}}{p_{k+1} - p_{k+2}} = \frac{\ln(1 - np_k e^{-np_k})}{\ln(1 - np_{k+1} e^{-np_{k+1}})} = \frac{\ln(Pr(X(k) \neq 1))}{\ln(Pr(X(k+1) \neq 1))}.$$

The derivative of  $Pr(X(k) \neq 1)$  with respect to  $p_k$  is positive if  $p_k > 1/n$  and negative if  $p_k < 1/n$ . We therefore have shown that  $(p_k - p_{k+1})$  is increasing in  $k$  when  $p_k > 1/n$ , whereas the difference is decreasing for  $p_k < 1/n$ .

4. Taking the limit of (2) as  $n \rightarrow \infty$  implies that  $p_{k+1} = p_k$ .

In order to show that the equilibrium  $\mathbf{p} = (p_1, p_2, \dots, p_K)$  is unique, suppose by contradiction that there is another equilibrium  $\mathbf{p}' = (p'_1, p'_2, \dots, p'_K)$ . By the equilibrium condition (1),  $p_1$  uniquely determines all probabilities  $p_2, \dots, p_K$ , while  $p'_1$  uniquely determines  $p'_2, \dots, p'_K$ . Without loss of generality, we assume  $p'_1 > p_1$ . Since in any equilibrium,  $p_{k+1}$  is strictly increasing in  $p_k$  by condition (1), it must be the case that all positive probabilities in  $\mathbf{p}'$  are higher than in  $\mathbf{p}$ . However, since  $\mathbf{p}$  is an equilibrium,  $\sum_{k=1}^K p_k = 1$ . This means that  $\sum_{k=1}^K p'_k > 1$ , contradicting the assumption that  $\mathbf{p}'$  is an equilibrium. Q.E.D.

To illustrate these equilibrium properties, here are the probabilities of choosing numbers 1 to  $K$  (columns) for various games with the Poisson mean  $N$  equal to the highest number  $K$ , for 3 to 8 players:

	<b>3x3</b>	<b>4x4</b>	<b>5x5</b>	<b>6x6</b>	<b>7x7</b>	<b>8x8</b>
<b>1</b>	0.4773	0.4057	0.3589	0.3244	0.2971	0.2747
<b>2</b>	0.3378	0.3092	0.2881	0.2701	0.2541	0.2397
<b>3</b>	0.1849	0.1980	0.2046	0.2057	0.2030	0.1983
<b>4</b>		0.0870	0.1129	0.1315	0.1430	0.1492
<b>5</b>			0.0355	0.0575	0.0775	0.0931
<b>6</b>				0.0108	0.0234	0.0385
<b>7</b>					0.0020	0.0064
<b>8</b>						0.0002

In the Swedish game the average number of players was  $N = 53,783$  and number choices were positive integers up to  $K = 99,999$ . As Figure 1 shows, the equilibrium involves mixing with substantial probability between 1 and 5000, starting from  $p_1 = 0.0002025$ . The predicted probabilities drop off very sharply at 5518. Note that all numbers are chosen with positive probability in equilibrium, but Figure 1 shows only the predicted probabilities for 1 to 10,000, since probabilities for number chosen above 10,000 are minuscule.

The central empirical question that will be answered later is how well actual behavior in the field matches the equilibrium prediction in Figure 1. Keep in mind that the simplified game analyzed in this section differs in some potentially important ways from the actual Swedish game. Computing the equilibrium is extremely complicated and its shape is not intuitive. It would therefore be surprising if the actual data matched the equilibrium closely.



## 2.3 Logit QRE

As described in McKelvey and Palfrey (1995) and Chen, Friedman, and Thisse (1997), the quantal response equilibrium (QRE) replaces best responses by quantal responses, allowing for either error in actions or uncertainty about payoffs. In a logit QRE, a vector  $\mathbf{p} = (p_1, p_2, \dots, p_K)$  is a symmetric equilibrium if all probabilities satisfy

$$p_k = \frac{\exp(\lambda\pi(k))}{\sum_{j=1}^K \exp(\lambda\pi(j))},$$

where payoffs are expected payoffs given the equilibrium probabilities.

If we assume that the number of players are Poisson distributed, we can use the expression for the payoff from playing the  $k^{\text{th}}$  number from the previous section. This gives the following symmetric QRE probabilities of the game:

$$p_k = \frac{\exp\left(\lambda \prod_{i=1}^{k-1} [1 - np_i e^{-np_i}] e^{-np_k}\right)}{\sum_{j=1}^K \exp\left(\lambda \prod_{i=1}^{j-1} [1 - np_i e^{-np_i}] e^{-np_j}\right)}.$$

Note that in a logit QRE, as in the Poisson equilibrium, all numbers are played with positive probability.

The ratio between  $p_{k+1}$  and  $p_k$  is

$$\begin{aligned} \frac{p_{k+1}}{p_k} &= \frac{\exp\left(\lambda \prod_{i=1}^k [1 - np_i e^{-np_i}] e^{-np_{k+1}}\right)}{\exp\left(\lambda \prod_{i=1}^{k-1} [1 - np_i e^{-np_i}] e^{-np_k}\right)} \\ &= \exp\left(\lambda \prod_{i=1}^{k-1} [1 - np_i e^{-np_i}] [(1 - np_k e^{-np_k}) e^{-np_{k+1}} - e^{-np_k}]\right). \end{aligned}$$

In the logit QRE, the equilibrium probabilities satisfy  $p_k \geq p_{k+1}$  with strict inequality whenever  $\lambda > 0$  (when  $\lambda = 0$  all strategies are played with equal probability  $1/K$ ).<sup>7</sup>

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<sup>7</sup>To see why this is the case, suppose by contradiction that  $p_{k+1} > p_k$ , i.e.,  $p_{k+1}/p_k > 1$ . From the expression for the ratio  $p_{k+1}/p_k$  we know that this implies that

$$\left(\lambda \prod_{i=1}^{k-1} [1 - np_i e^{-np_i}] [(1 - np_k e^{-np_k}) e^{-np_{k+1}} - e^{-np_k}]\right) > 0.$$

Dividing by  $\lambda$  (assuming that  $\lambda > 0$ ) and the multiplicative operator and rearranging we get

$$(1 - np_k e^{-np_k}) e^{np_k} > e^{np_{k+1}}.$$

Taking logarithms

$$\frac{1}{n} \ln(1 - np_k e^{-np_k}) > p_{k+1} - p_k.$$

Some intuition about how QRE behaves<sup>8</sup> can be obtained from the case implemented in the lab experiments, which has an average of  $N = 26.9$  players (Poisson-distributed) and numbers from 1 to  $K = 99$ . Figure 2 shows the QRE probability distributions for three values of  $\lambda$  and for the Poisson-Nash equilibrium. When  $\lambda$  is low, the distribution is approximately uniform. As  $\lambda$  increases more probability is placed on lower numbers 1-10. When  $\lambda$  is high enough the QRE closely approximates the Poisson-Nash equilibrium, which puts roughly linear declining weight on numbers 1 to 15 and infinitesimal weight on higher numbers.

## 2.4 Cognitive Hierarchy with Quantal Response

A natural way to model limits on strategic thinking is by assuming that different players carry out different numbers of steps of iterated strategic thinking in a cognitive hierarchy (CH). This idea has been developed in behavioral game theory by several authors (e.g., Nagel, 1995, Stahl and Wilson, 1995, Costa-Gomes, Crawford, and Broseta, 2001 and Camerer, Ho, and Chong, 2004) and applied to many games of different structures (Camerer, Ho, and Chong, 2004). A precursor to these models was the insight, developed much earlier in the 1980's by researchers studying negotiation, that people often 'ignore the cognitions of others' in asymmetric-information bidding and negotiation games (Bazerman, Curhan, Moore, and Valley, 2000).

These models require a specification of how  $k$ -step players behave and the proportions of players for various  $k$ . We follow Camerer, Ho, and Chong (2004) and assume that the proportion of players that do  $k$  thinking steps is Poisson distributed with mean  $\tau$ , i.e., the proportion of players that think in  $k$  steps is given by

$$f(k) = e^{-\tau} \tau^k / k!.$$

We assume that  $k$ -step thinkers correctly guess the proportions of players doing 0 to  $k-1$  steps. Then the conditional density function for the belief of a  $k$ -step thinker about the proportion of  $l < k$  step thinkers is

$$g_k(l) = \frac{f(l)}{\sum_{h=0}^{k-1} f(h)}.$$

Let  $p_i^k$  denote the probability with which a  $k$ -step thinker plays number  $i$ . When

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Since  $p_{k+1} > p_k$ , the right hand side is positive. The left hand side, however, is always negative since  $1 - np_k e^{-np_k} = P(X(k) \neq 1)$  (which is a probability between zero and one). This is a contradiction, and we can therefore conclude that  $p_k > p_{k+1}$  whenever  $\lambda > 0$ .

<sup>8</sup>We have not shown that the symmetric logit QRE is unique, but no other symmetric equilibria have emerged during numerical calculations.

the number of players is large, the perceived percentage of players that do 0 through  $k - 1$  steps of thinking, in the mind of the  $k$ -step thinker, will closely approximate the conditional percentages<sup>9</sup>

$$nq_i^k = n \sum_{j=0}^{k-1} g_k(j) p_i^j.$$

Hence, the payoff for choosing number  $i$  is

$$\pi(i) = \prod_{j=1}^{i-1} \left[ 1 - nq_j^k e^{-nq_j^k} \right] \cdot e^{-nq_i^k}.$$

To fit the data well, it is necessary to assume that players respond stochastically (as in QRE) rather than always choose best responses (see also Camerer, Palfrey, and Rogers, 2006).<sup>10</sup> We assume that level 0 players randomize uniformly across all numbers 1 to  $K$ , and higher-step players best respond with probabilities determined by a power function.<sup>11</sup> The probability that a  $k$  step player plays number  $i$  is given by

$$p_i^k = \frac{\left( \prod_{j=1}^{i-1} \left[ 1 - nq_j^k e^{-nq_j^k} \right] e^{-nq_i^k} \right)^\lambda}{\sum_{l=1}^K \left( \prod_{j=1}^{l-1} \left[ 1 - nq_j^k e^{-nq_j^k} \right] e^{-nq_l^k} \right)^\lambda},$$

for  $\lambda > 0$ . In order for probabilities to be increasing in the payoff of a number, the payoffs have to be non-negative, which is the case in the LUPI game. Since  $q_j^k$  is defined recursively—it only depends of what lower step thinkers do—it is straightforward to compute the outcome numerically. Apart from the number of players and the numbers of strategies, there are two parameters: the average number of thinking steps,  $\tau$ , and the precision parameter,  $\lambda$ .

To illustrate how the CH model behaves, consider the parameters of our lab experi-

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<sup>9</sup>Instead of calculating all possible combinations of types for unknown (and large) number of players, we use the conditional Poisson percentages of types.

<sup>10</sup>The reason why quantal response is empirically helpful is that best-response models pile up predicted responses at a very small range of the lowest integers, which does not match the data when the number range is large. That is, if  $k$ -step thinkers choose best responses and there are many players, a one-step thinker always chooses 1. A two-step thinker anticipates that others will randomize or choose 1, so she chooses 2. In games where the number range is large, this best-response CH approach predicts number choices will be highly clustered at only the first few integers. Assuming quantal response smoothes out the predicted choices over a wider number range.

<sup>11</sup>A logit choice function fits substantially worse in this case. Note that the logit form implies invariance of choice probabilities to adding a constant to all payoffs, while the power form implies invariance to multiplying payoffs by a positive number. The fact that selected and unselected players in the lab experiment playing for money and pride, respectively, behave similarly is consistent with the power function implication that changing stake in scale does not matter much, assuming that there is some intrinsic payoff even when there is no money payoff.

ments, in which  $N = 26.9$  and  $K = 99$ , with  $\tau = 1.5$  and  $\lambda = 2$ . Figure 3 shows how 0 to 5 step thinkers play LUPI and the predicted aggregate frequency, summing across the different thinking step distributions. In this example, one-step thinkers put most probability on number 1, whereas two-step thinkers put most probability on number 5. Three-step thinkers put most probability on numbers 3 and 7 (Remarkably, these predictions put more overall weight on odd numbers, which is evident in the field data too).

Figure 4 shows the prediction of the cognitive hierarchy model for the parameters of the field LUPI game, i.e., when  $N = 53783$  and  $K = 99999$ . The dashed line corresponds to the case when players do relatively few steps of reasoning and their responses are very noisy ( $\tau = 3$  and  $\lambda = 0.008$ ). The dotted line corresponds to the case when players do more steps of reasoning and respond more precisely ( $\tau = 10$  and  $\lambda = 0.011$ ).

There is an important contrast between the ways in which QRE and CH models deviate from equilibrium. QRE predicts number choices will be more evenly spread across the entire range than what equilibrium predicts; i.e., there will be too few low numbers and too many higher numbers. As Figure 4 shows, when compared to Poisson equilibrium, CH predicts there will be too many very low numbers, not enough numbers at the high end (e.g. 3000 to 5518 in Figure 4, when  $\tau$  and  $\lambda$  are low, and 4500 to 5518 when  $\tau$  and  $\lambda$  are high ).

### 3 The Field LUPI Game

The field version of LUPI called Limbo, was introduced by the Swedish government-owned gambling monopoly Svenska Spel on the 29th of January 2007.<sup>12</sup> This section describes its essential elements with additional description in Appendix C.

In Limbo, players chose up to six integers between 1 and 99999, and each number bet costs 10 SEK each (approximately 1 EURO). The game was played daily and the winning number was presented on TV in the evening and on the Internet. The winner received 18 percent of the total sum of bets, with the prize guaranteed to be at least 100,000 SEK (approximately 10,000 EURO).<sup>13</sup> In the unlikely event that there is no number that only one player picked, which never happened, the prize would have been split between those who chose the lowest number with the fewest number of bets. There were also second and third prizes, as well as a special weekly “final prize”. The second prize was 1000 SEK and was received by everyone who chose numbers that were close (below or above) to the

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<sup>12</sup>Stefan Molin at Svenska Spel told us that he invented the game in 2001 after taking a game theory course from the Swedish theorist and experimenter Martin Dufwenberg.

<sup>13</sup>The prize guarantee of 100,000 SEK was first extended until the 11th of March and then to the 18th of March. We use data from the 29th of January to the 18th of March, so the prize guarantee covered all days for which we have data.

winning number. The third prize was 20 SEK and was received by everyone who chose numbers close to the winning number, but not close enough to win the second prize.<sup>14</sup> The winner of the first prize also won the possibility to participate in a “final game”.<sup>15</sup> The final game ran weekly and had four to seven participants. The “final game” consisted of three rounds where the participants chose two numbers in each round. The rules of this game were very similar to the original game, but what happened in this game did not depend on what number you chose in the main game, so we leave out the details about this game.

During the first three to four weeks, it was only possible to play the game at physical branches of Svenska Spel. Players had to fill out the form shown in Figure A1 when playing at physical branches. The form allowed players to bet on up to six numbers, and it also allowed players to play the same numbers for up to 7 days in a row. More importantly, there was also an option called “HuxFlux”, which indicated that the player wanted a computer to select a number. The computer selected numbers from a uniform distribution where the support of the distribution was determined by the play during the 7 previous days.<sup>16</sup> It became possible to play the game on the Internet sometime between the 21st and 26th of February 2007. The web interface for online play is shown in Figure A2. This interface also included the option “HuxFlux”, but in this case players could see the number that was generated by the computer before deciding whether to place the bet.

We use daily data from the first seven weeks. The reason is that the game was withdrawn from the market on the 24th of March 2007 and we were only able to access data up to the 18th of March 2007. The game was stopped one day after a newspaper article claimed that some players had colluded in the game, but it is unclear to what extent collusion actually occurred.<sup>17</sup> Unfortunately, we have only gained access to aggregate daily frequencies, not to individual data. The data used includes choices from players that let a random number generator pick an integer for them.<sup>18</sup>

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<sup>14</sup>The thresholds for the second and third prizes were determined so that the second prizes constituted 11 percent of all bets and the third prizes 17.5 percent.

<sup>15</sup>3.5 percent of all daily bets were reserved for this “final game”.

<sup>16</sup>In the first week HuxFlux randomized numbers uniformly between 1 and 15000. After seven days of play, the computer randomized uniformly between 1 and the average 90th percentile from the previous seven days. However, the only information given to players about HuxFlux was that a computer would choose a number for them.

<sup>17</sup>The rule that players could only pick up to six numbers a day was enforced by the requirement that players had to use a “gambler’s card” linked to their personal identification number when they played. Colluding in LUPI can increase the probability of winning. For example, in the field data we obtained, the lowest number not played was always below 4800, meaning that a coalition consisting 800 people each choosing 6 distinctive numbers could guarantee a win facing the empirical distribution of bets in any given day. The total payoff for the coalition would be at least  $100,000 - 48,000 = 52,000$  (SEK). Note this requires a large number of people to work, and will fail miserably if more than one coalition act on the same day.

<sup>18</sup>We don’t know exactly how many players used this option. However, in the first week, we can infer

Note that the theoretical analysis of the LUPI game differs from the field LUPI game in three respects. First, in the theoretical analysis we assume a tie-breaking rule such that nobody gets anything if there is no unique number. In the field version of LUPI, the prize is split between those that guessed the lowest number with the fewest number of guesses. Since the probability that there is no number that only one player guessed is very small when the number of players and numbers to choose from are large, we believe that this difference plays little role for the theoretical predictions. A second, more important, difference is that we assume that each player can only pick one number. In the field game, players are allowed to bet on up to six numbers. This does play a role for the theoretical predictions, since it allows players to “knock out” a winner by choosing the same number twice and then bet on a higher number hoping that this will be the only winning number. However, this difference is less likely to play a role when the number of players is very large, as it is in our field data. Finally, we do not take the second and third prizes present in the field version into account, but this is unlikely to make a big difference for the strategic nature of the game. Nevertheless, these three differences between the game analyzed theoretically and the field game is an important motivation for why we also run laboratory experiments with single bets, no opportunity for direct collusion, and only a first prize, which match the game analyzed theoretically.

### 3.1 Descriptive Statistics

Table 1 reports summary statistics for the first 49 days of the game. To get some notion of possible learning over time, two additional columns display the corresponding daily averages for the first and last weeks. The last column displays the corresponding statistics that would result if players played according to Poisson equilibrium.

Overall, the average number of bets was 53,783, but there was considerable variation over time. There is no apparent time trend in the number of participating players, but there is less participation on Sundays and Mondays (see Figure A3). The variation of the number of bets across days is therefore much higher than what the Poisson distribution predicts (its standard deviation is 232), which is one more reason to expect the equilibrium prediction to not fit very well.

However, the average number chosen overall was 2835, which is close to the equilibrium prediction of 2595. Winning numbers, and the lowest numbers not chosen by anyone, also varied a lot over time. Comparing the first and last week, all the aggregate statistics and frequencies in low-number intervals converge reasonably closely to equilibrium. For

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that the number of players choosing this option was approximately 19 percent. (Since we know the upper cutoff for the randomizing device, we use the number of bets above and below this cutoff to get this approximation.)

example, in equilibrium essentially nobody should choose a number above 10,000. In the first week 12 percent chose these high numbers, but that fraction fell to one percent in the last week.

	All days				1 <sup>st</sup> week	7 <sup>th</sup> week	Eq.
	Avg.	Std.	Min	Max	Avg.	Avg.	Avg.
# Bets	53783	7782	38933	69830	57017	47907	53783
Average number played	2835	813	2168	6752	4512	2484	2595
Median number played	1674	348	435	2272	1203	1935	2541
Winning number	2095	1266	162	4465	1159	1982	2585
Lowest number not played	3103	929	480	4597	1745	3462	4077
Below 100 (%)	6.08	4.84	2.72	2.97	15.16	3.19	2.02
Below 1000 (%)	32.31	8.14	21.68	63.32	44.91	27.52	20.05
Below 5000 (%)	92.52	6.44	68.26	97.74	78.75	96.44	93.34
Below 10000 (%)	96.63	3.80	80.70	98.94	88.07	98.81	100.00
Even numbers (%)	46.75	0.58	45.05	48.06	45.91	47.45	49.99
Divisible by 10 (%)	8.54	0.466	7.61	9.81	8.43	9.01	9.99
Proportion 1900–2010 (%)	71.61	4.28	67.33	87.01	7.94	68.79	49.78
11, 22, etc. (%)	12.2	0.82	10.8	14.4	12.4	11.4	9.00
111, 222 etc. (%)	3.48	0.65	2.48	4.70	4.27	2.78	0.90
1111, 2222, etc. ( <i>%e</i> )	4.52	0.73	2.81	5.80	4.74	3.95	0.74
Prop. 11111, 22222, etc. ( <i>%e</i> )	0.76	0.84	0.15	5.45	2.26	0.21	0

Proportion of numbers between 1900 and 2010 refers to the proportion relative to numbers between 1844 and 2066. Proportion XX refers to the proportion relative to numbers below 100, XXX relative to numbers below 1000 and so on. The prediction refers to the equilibrium with  $n = 53,783$  and  $K = 99,999$ .

Table 1: Descriptive statistics for field data

An interesting feature of the data is a tendency to avoid round or focal numbers and choose quirky numbers that are perceived as 'anti-focal' (as in hide-and-seek games, see Crawford and Iriberry, 2007). Even numbers were chosen less often than odd ones (46.75% vs. 53.25%). Numbers divisible by 10 are chosen a little less often than predicted. Strings of repeating digits (like 1111) are chosen too often.<sup>19</sup> Players also overchoose numbers that represent years in modern time (perhaps their birth years), except for round years (e.g., 1950). If players had played according to equilibrium, the fraction of numbers between 1900 and 2010 divided by all numbers between 1844 and 2066 should be 49.78 percent, but the actual fraction was 70 percent. Figure 5 shows a histogram of numbers between 1900 and 2010 (aggregating all 49 days). Note that although the numbers around 1950

<sup>19</sup>Similar behavior can be found in the federal tax evasion case of Joe Francis, the founder of "Girls Gone Wild." Mr. Francis was indicted on April 11, 2007 for claiming false business expenses such as \$333,333.33 and \$1,666,666.67 in insurance, which were too suspicious *not* to attract attention. See <http://consumerist.com/consumer/taxes/girls-gone-wild-tax-indictment-teaches-us-not-to-deduct-funny-looking-numbers-252097.php> for the proposed tax lesson.

are most popular, there are dips at years that are divisible by ten. Figure 5 also shows the aggregate distribution of numbers between 1550 and 2400, which clearly shows the popularity of numbers around 1950 and 2007. There are also spikes in the data for special numbers like 2121, 2222 and 2345.

## 3.2 Results

Do subjects in the field LUPI game play according to the equilibrium prediction? In order to investigate this, we assume that the number of players is Poisson distributed with mean equal to the empirical daily average number of numbers chosen (53783). As noted, this assumption is wrong because the variation in number of bets across days is much higher than what the Poisson distribution predicts.

Recall that in the Poisson equilibrium, probabilities of choosing higher numbers first decrease slowly, drop quite sharply at around 5500, and asymptotes to zero after  $p_{5513} \approx 1/n$  (recall Proposition 1 and Figure 1). Figure 6 shows the average daily frequencies from the first week together with the equilibrium prediction (indicated by the dashed line), for all numbers up to 100,000 and for the restricted interval up to 10,000. Compared to equilibrium, there is overshooting at numbers below 1000 and undershooting at numbers between between 2000 and 5500. It is also noteworthy how spiky the data is compared to the equilibrium prediction, which is a reflection of clustering on special numbers, as described above.

Figure 7 shows average daily frequencies of choices from the second through the last (7th) week. Behavior in this period is much closer to equilibrium than in the first week. Indeed, when the full range of numbers is graphed (the left-hand graph) it is clear that there are too many low choices, but the frequencies do drop off sharply quite close to where the equilibrium predicts a dropoff. However, when only numbers below 10,000 are plotted, the overshooting of low numbers and undershooting of intermediate numbers is still clear and there are still many spikes of clustered choices. (These two deviations are still evident even in the seventh and last week, as shown in Figure A4.)

Statistical tests of the significance of these deviations are unnecessary because the large sample sizes will reject the equilibrium hypothesis strongly. The more important question is whether alternative theories can explain both the degree to which the equilibrium prediction is surprisingly accurate *and* the degree to which there is systematic deviation.



### 3.3 Rationalizing Non-Equilibrium Play

In this section, we investigate if the cognitive hierarchy model can account for the two main deviations from equilibrium just described in the previous section. We do not estimate the QRE model because it cannot account for overshooting of low numbers, and it is very computationally challenging to estimate for the large-scale field data. (We do estimate it in the lab data discussed later.)

Table 2 reports the results from the maximum likelihood estimation of the data using the cognitive hierarchy model.<sup>20</sup> The best-fitting estimates week-by-week, shown in Table 2, suggest that both parameters increase over time. The average number of thinking steps that people carry out,  $\tau$ , increases from about 3 in the first week—an estimate reasonably close to estimates from 1.5 to 2.5 that typically fit experimental data sets well (Camerer, Ho, and Chong, 2004) to 10 in the last week.

Week	1	2	3	4	5	6	7
$\tau$	2.9777	5.8338	7.3156	7.208	7.8175	10.2672	10.2672
$\lambda$	0.0080	0.0094	0.0103	0.0108	0.0110	0.0108	0.0107

Table 2: Maximum likelihood estimation of the cognitive hierarchy model for field data

Figure 8 shows the average daily frequencies from the first week together with the cognitive hierarchy estimation and equilibrium prediction. The cognitive hierarchy model does a reasonable job of accounting for the over- and undershooting tendencies at low and intermediate numbers. The model also accounts for the fact that some players pick very high numbers (which any model with extra randomness will do). For the first week, the cognitive hierarchy model predicts that 5 percent of all numbers are above 10,000, which is too low since the corresponding number in data from the first week is 12 percent, but is closer than the equilibrium prediction of approximately zero. Furthermore, while the CH model does have two degrees of freedom which the Poisson equilibrium prediction does not, there is a large amount of data so the good account of the deviations is not due to overfitting.

In the last week, the estimated  $\tau$  and  $\lambda$  both are considerably higher. As a result, the cognitive hierarchy prediction is much closer to equilibrium but still accounts for the smaller over- and -undershooting (see Figure 9).

To get some notion of how close to the data the fitted cognitive hierarchy model is, Table 3 displays two goodness-of-fit statistics. The log-likelihoods reveal that the cognitive

<sup>20</sup>It is difficult to guarantee that these estimates are global maxima since the likelihood function is not smooth and concave. We also used a relatively coarse grid search, so there may be other parameter values that yield higher likelihoods.

hierarchy model does better in explaining the data toward the last week (likelihoods of the Poisson-Nash equilibrium are an unfair test because many numbers are chosen that have essentially zero predicted probability; likelihood comparisons like the Vuong test would therefore very strongly reject the equilibrium prediction.)

In order to compare the CH model with the equilibrium prediction in a more bounded way, we calculate the proportion of the empirical density that lies below the predicted density, i.e., the proportion of choices that were correctly predicted. This statistic also shows that the cognitive hierarchy model can explain the data better toward the end of the time period. The cognitive hierarchy model does better than the equilibrium prediction in all seven weeks based on this statistic. For example, in the first week, 61 percent of players' choices were consistent with the cognitive hierarchy model, whereas only 50 percent were consistent with equilibrium. However, the cognitive hierarchy model is fitted with two free parameters, whereas the equilibrium prediction is calculated without any parameters. We therefore can not conclude that one of the two models is better.

Week	1	2	3	4	5	6	7
Log-likelihood CH	-63956	-36390	-23716	-20546	-20255	-19748	-18083
Proportion below CH (%)	61.08	72.50	77.69	79.87	81.86	82.63	81.94
Proportion below eq. (%)	49.56	61.82	67.66	67.70	70.23	76.79	76.61

The proportion below the theoretical prediction refers to the fraction of the empirical density that lies below the theoretical prediction.

Table 3: Goodness-of-fit for cognitive hierarchy and equilibrium for field data

The players' tendency to embrace or avoid particular numbers is more difficult to explain using general formal models. As was shown in Table 1, players seem to have preferences for odd numbers, numbers that represent round-numbered years, and repeating same-digit strings, whereas they avoid numbers divisible by 10 and even numbers. In the CH approach, the natural way to model this is to assume that 0-step thinkers do not choose randomly, but they instead choose using simple low-effort heuristics, including prominent numbers. One-step thinkers then correctly avoid these numbers and choose anti-focal numbers (e.g. avoiding numbers that are multiples of 10). It is hard to explain these choices parametrically without some theory of what makes certain choices focal or anti-focal, so we simply note this tendency and leave a deeper understanding to future research. Note however that Crawford and Iriberri (2007) use a CH approach to explain similar patterns in simpler hide-and-peek games. In their games the number of strategies is small, so the strategies which are not focal (in a graphical display) are typically anti-focal. With the large number of strategies in our games the same approach does not work so neatly (e.g., avoid the numbers 10 and 20 do not necessarily point to the choices of 11

and 22, neither than 16 or 28).

## 4 The Laboratory LUPI Game

The rules of the field LUPI game do not exactly match the theoretical assumptions used to generate the predicted equilibrium described above. The field data included some choices made by a random number generator and some players might have chosen multiple numbers or simply colluded. It is possible that these features can account for the discrepancies between the data and the equilibrium prediction. We then took the natural next step, playing the LUPI game in a controlled laboratory environment which more closely matches the assumptions of the theory.

In designing the laboratory game, we compromise between two goals: to create a simple environment in which theory should apply (theoretical validity), and to recreate the features of the field LUPI game in the lab. Because we use this opportunity to create an experimental protocol that is closely matched to a particular field setting, we sometimes sacrificed theoretical validity for field replication.

The first choice is the scale of the game, in number of players ( $N$ ), permissible numbers ( $K$ ), and stakes. We choose to scale down the number of players and the largest payoff by a factor of roughly 2000. This implies that there were on average of 26.9 players and the prize to the winner in each round was \$7. To create an equilibrium prediction which has a similar relative shape to the field setting, we choose  $K = 99$ . (Rescaling by 2000 would lead to a range from 1 to  $K = 50$ , but the equilibrium for that case is much more compressed into small numbers, and we worried that we would miss the chance to see anti-focal numbers like 66 and 88 if the range of numbers was too small). Since the field data span 49 days, the experiment has 49 rounds in each session. (We typically refer to experimental rounds as “days” and seven-‘day’ intervals as ‘weeks’ for semantic comparability between the lab and field descriptions.) While the winning number was announced in each field-game day, we do not know how much subjects learned about the number distribution (which was only available online); thus, we choose to announce only the winning number in the lab.

Because the number of players is endogenous in the field, in the lab experiment the number of players in each round was also determined randomly. In two sessions, we scaled down the empirical distribution of number of bets in the field as in the 49 days by 2000, then re-scaled it so that the mean equals the variance (both are 26.9), consistent with a Poisson distribution. In a third session, we used a Poisson distribution with a mean of 26.9 players to generate the numbers of players. Because players in the field did not necessarily know the number of players, we did not tell the lab subjects the process by

which the number of players in each round was determined. This is an example of how the design opted for lab-field parallelism at the expense of theoretical validity.

In contrast to the field game, each player was allowed to choose only one number and there was only one prize per round, in the amount of \$7. There was no option to use a random number generator and in the case there was no number that only one player picked, nobody won in that round. These rules implement theoretical assumptions but depart from the rules in the field game.

Three laboratory sessions were conducted at the California Social Science Experimental Laboratory (CASSEL) at University of California Los Angeles on the 22nd and 25th of March 2007. The experiments were conducted using the Zürich Toolbox for Ready-made Economic Experiments (zTree) developed by Urs Fischbacher, as described in Fischbacher (2007). Within each session, 38 graduate and undergraduate students were recruited, through CASSEL's web-based recruiting system, to participate. All subjects had the knowledge that their payoff will be determined by their performance. We made no attempt to replicate the demographics of the field data, which we unfortunately know very little about. However, the players in the laboratory are likely to differ in terms of gender, age and ethnicity compared to the Swedish players. In all three sessions, we had more female than male subjects, with all of them clustered in the age bracket of 18 to 22, and the majority spoke a second language. The majority of the subjects had never participated in any form of lottery before. According to subjects' self-perceived income group, roughly half indicated that they were below the 50th percentile.<sup>21</sup> Subjects had various levels of exposure to game theory, but very few had seen or heard of a similar game prior to this experiment.

## 4.1 Experimental Procedure

At the beginning of each session, the experimenter first explained the rules of the LUPI game. The instructions were based on a version of the lottery ticket for the field game translated from Swedish to English (see Appendix D). Subjects were then given the option of leaving the experiment, in order to see how much self-selection influences experimental generalizability. None of the recruited subjects chose to leave, which indicates a limited role for self-selection (after recruitment and instruction).

After having received everyone's consent, the experiment continued. In order to avoid an end-game effect, subjects were told that the experiment would end at a predeter-

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<sup>21</sup>Subjects were asked to report their household income percentile. Since we were interested in how the subjects perceived themselves, we purposely did not define the size of household, whether counting themselves as independent head of household or as a dependent of their parents' household. Along the same line of reasoning, we did not provide subjects with the current national income distribution.

mined, but non-disclosed time (also matching the field setting, which ended abruptly and unexpectedly.) Subjects were told that participation was randomly determined at the beginning of each round, with 26.9 subjects participating on average. In the beginning of each round, subjects were informed whether they would participate in the current round. They were required to submit a number in each round, even if they were not selected to participate (the difference between behavior of selected and non-selected players gives us some information about the effect of marginal incentives.)

When all subjects had submitted numbers, the lowest unique positive integer was determined. If there was a lowest unique positive integer, the winner earned \$7. Each subject was privately informed, immediately after each round, what the winning number was, whether they had won that particular round, and their payoff so far during the experiment. This procedure was repeated 49 times, with no practice rounds (as is the case of the field). After the last round, subjects were asked to complete a short questionnaire which allowed us to build the demographics of our subjects and a classification of strategies used. In one of the sessions, we included the cognitive reflection test as a way to measure cognitive ability (to be described below). All sessions lasted for less than an hour, and subjects received a show-up fee of \$8 or \$13 in addition to prizes from the experiment (which averaged \$8.6.)

Screenshots from the experiment are shown in Appendix D.

## 4.2 Lab Descriptive Statistics

Behavior in the laboratory differs slightly among the three sessions. We cannot reject that the two sessions that used the scaled down field distribution of number of players are different (the  $p$ -value using a Mann-Whitney test is 0.44), but the session that follows an actual Poisson distribution is statistically different from the pooled data from the other two sessions (Mann-Whitney  $p$ -value 0.009). However, if we only use the choices of players who were selected to participate in each round, we cannot reject that the distribution of the data is the same in all sessions at  $p < 0.05$ .<sup>22</sup>

In the remainder of the paper, we therefore pool the data from all three sessions, but only use the choices of participating subjects. It should be noted, however, that we cannot reject that participating and non-participating players' behavior differ when pooling data from all sessions (Mann-Whitney  $p$ -value 0.16). Figure 10 displays the aggregate data

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<sup>22</sup>Using only selected players' choices, a Mann-Whitney test of the null hypothesis that the two sessions with the field distribution are the same results in a  $p$ -value of 0.22. Separately comparing the Poisson session with the two sessions with the field distribution of players result in  $p$ -values of 0.06 and 0.46. Comparing the session with the Poisson distribution with the pooled data from the two sessions with the field distribution results in a  $p$ -value of 0.13.

from non-selected and selected subjects' choices. Subjects are slightly more likely to play high numbers above 20 when they are not selected to participate, but overall the pattern looks very similar. This implies that subjects' behavior in a particular round is almost unaffected depending on whether they had marginal monetary incentives or not.

Figure 11 shows the data for the choices of participating players. There are very few numbers above 20 and we therefore focus on the numbers 1 to 20 in the following graphs. In line with the field data, players have a predilection for certain numbers, while others are avoided. Judging from Figure 11, subjects avoid some even numbers, especially 2 and 10, while they endorse the odd (and prime) numbers 3, 11, 13 and 17. Interestingly, no subject played 20, while 19 was played five times and 21 was played six times.

Table 4 shows some descriptive statistics for the participating subjects in the lab experiment. As in the field, some players in the first week tend to pick very high numbers. In the first week, 93 percent of all numbers are below 20 (7 percent above 20), while only one percent chose above 20 in the last week. The average number chosen in the last week corresponds closely to the equilibrium prediction (5.3 vs 5.2) and the medians are identical (5.0). The average winning numbers are too high compared to equilibrium play, which is consistent with the observation that players pick very low numbers too much, creating non-uniqueness among those numbers so that unique numbers are high. The tendency to pick odd numbers decreases over time—40 percent of all numbers are even in the first week, whereas 47 percent are even in the last week (which coincides with the equilibrium proportion of even numbers.)

	All rounds				R 1-7	R. 43-49	Eq.
	Avg.	Std.dev.	Min	Max	Avg.	Avg.	Avg.
Average number played	5.7	1.6	4.2	13.1	9.0	5.3	5.2
Median number played	4.8	1.0	3.5	8.0	6.0	5.0	5
Below 20 (%)	98.13	3.43	78.05	100.00	92.81	98.83	1.00
Even numbers (%)	44.07	5.84	29.47	56.94	39.79	47.16	46.86
Session 1 (Field dist.)							
Winning number	6.0	9.3	1	67	13.0	2.5	2.9
Lowest number not played	8.1	2.5	1	12	4.9	8.1	3.3
Session 2 (Poisson dist.)							
Winning number	5.1	2.6	1	10	5.8	5.1	2.9
Lowest number not played	7.5	2.9	1	12	6.3	8.4	3.3
Session 3 (Field dist.)							
Winning number	5.6	3.2	1	14	6.1	5.7	2.9
Lowest number not played	7.5	2.7	2	13	7.4	10.0	3.3

Summary statistics are based only on choices of subjects that are selected to participate. The equilibrium column refers to what would result if all players played according to equilibrium ( $n = 26.9$  and  $K = 99$ )

Table 4: Descriptive statistics for laboratory data

### 4.3 Aggregate Results

In the Poisson equilibrium with 26.9 average number of players, strictly positive probability is put on numbers 1 to 13, while other numbers have probabilities numerically indistinguishable from zero. Figure 12 shows the average frequencies played in week 1 to 7 together with the equilibrium prediction (dashed line) and the estimated week-by-week results using the cognitive hierarchy model (solid line). These graphs clearly indicates that learning is quicker in the laboratory than in the field (recall that the only feedback given to players in each round is the winning number). Despite this, behavior is remarkably close to equilibrium already in the second week. However, we can also observe the same discrepancies between the equilibrium prediction and observed behavior as in the field. The distribution of numbers is too spiky and there is overshooting of low numbers and undershooting at numbers just below the equilibrium cutoff.

Figure 12 also displays the estimates from a maximum likelihood estimation of the cognitive hierarchy model presented in the theoretical section (solid line). The cognitive hierarchy model can account both for the spikes and the over- and undershooting. Table 5 shows the estimated parameters.<sup>23</sup> There is no clear time trend in the two parameters, and in some rounds the average number of thinking steps is unreasonably large compared to other experiments showing  $\tau$  around 1.5. Since there are two free parameters with relatively few choice probabilities to estimate, we might be over-fitting by allowing two free parameters. We therefore estimate the precision parameter  $\lambda$  while keeping the average number of thinking steps fixed. We set the average number of thinking steps to 1.5, which has been shown to be a value of  $\tau$  that predicts experimental data well in a large number of games (Camerer, Ho, and Chong, 2004). The estimated precision parameter is considerably lower in the first week, but is then relatively constant. Figure 13 shows the fitted cognitive hierarchy model when  $\tau$  is restricted to 1.5. It is clear that the model with  $\tau = 1.5$  can account for the undershooting also when the number of thinking steps is fixed, but it has difficulties in explaining the overshooting of low numbers. The main problem is that with  $\tau = 1.5$ , there are too many zero-step thinkers that play all numbers between 1 and 99 with uniform probability.

Table 5 also displays the maximum likelihood estimate of  $\lambda$  for the logit QRE. The precision parameter is relatively high in all weeks, but particularly from the second week and onwards. Recall from Figure 2 that the QRE prediction for such high  $\lambda$  is very close to the Poisson-Nash equilibrium.

Table 6 provides some goodness-of-fit statistics for the cognitive hierarchy model, QRE and the equilibrium prediction. The table reveals that the cognitive hierarchy estimations

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<sup>23</sup>The log-likelihood function is neither smooth nor concave, so the estimated parameters may not reflect a global maximum of the likelihood.

Week	1	2	3	4	5	6	7
$\tau$	8.15	13.14	6.48	5.31	11.52	5.05	9.00
$\lambda$	1.19	11.27	10.85	14.92	13.53	14.67	8.73
$\lambda (\tau = 1.5)$	1.08	2.37	2.85	2.82	2.76	2.34	2.16
$\lambda_{QRE}$	123.40	526.83	396.24	430.83	523.30	517.25	309.89

Table 5: Maximum likelihood estimation of the cognitive hierarchy model and QRE for laboratory data

fit the data better after the first week. Comparing the proportion of correctly predicted choices, the equilibrium prediction does remarkably well. The equilibrium prediction does better than the cognitive hierarchy model with  $\tau = 1.5$  in all weeks, but the cognitive hierarchy model with two free parameters does better than the equilibrium prediction in all but the second week. Allowing for noise, the logit QRE performs better than equilibrium in the first week, but is practically indistinguishable from equilibrium after the first week (due to high  $\lambda$ ). Since the logit QRE includes the Poisson equilibrium as a special case (when  $\lambda \rightarrow \infty$ ), the log-likelihood of the logit QRE provides an upper bound for that of the Poisson-Nash equilibrium. Hence, comparing the log-likelihood of logit QRE and cognitive hierarchy, we also see that the Poisson-Nash equilibrium (using logit QRE as bound) out-performs the cognitive hierarchy model with  $\tau = 1.5$ , but is out-performed by the cognitive hierarchy model with two free parameters.

Week	1	2	3	4	5	6	7
Log-likelihood CH	-150.9	-75.9	-67.5	-65.0	-64.4	-60.7	-68.5
Log-likelihood CH $\tau = 1.5$	-204.1	-180.8	-171.6	-179.8	-177.8	-178.4	-185.8
Log-likelihood logit QRE	-172.2	-76.8	-94.8	-88.5	-82.0	-76.9	-88.9
Proportion below CH (%)	86.06	88.02	92.26	93.13	91.41	94.99	92.60
Proportion below CH $\tau = 1.5$ (%)	81.11	76.53	79.00	76.79	78.23	76.22	77.18
Proportion below logit QRE (%)	84.95	87.94	83.64	86.88	86.13	90.21	86.61
Proportion below eq. (%)	81.71	88.16	83.60	87.19	86.13	90.79	86.88

The proportion below the theoretical prediction refers to the fraction of the empirical density that lies below the theoretical prediction.

Table 6: Goodness-of-fit for cognitive hierarchy, QRE and equilibrium for laboratory data

On the aggregate level, behavior in the lab is remarkably close to equilibrium from the second to the last week. The cognitive hierarchy model can rationalize the tendencies that some numbers are played more, as well as the undershooting below the equilibrium cutoff. The value-added of the cognitive hierarchy model is not primarily that it gives a slightly better fit, but that it provides a plausible story for how players manage to play so close to equilibrium. Most likely, few players would be capable of calculating the equilibrium



during the course of the experiment, whereas many of them should be able to carry out a few steps of reasoning along the lines of the cognitive hierarchy model.

#### 4.4 Individual Results

Behavior on the aggregate level is close to equilibrium, which is particularly remarkable since subjects received very little feedback during the experiment (only the winning numbers). In the post-experimental questionnaire, several subjects said that they responded to previous winning numbers, so we regressed players' choices on the winning number in previous periods. Table 7 shows that the winning numbers in previous rounds do affect players' choices early on. In the first and second weeks, if the winning number was high, players tend to choose higher numbers in the next round. However, this tendency is considerably weaker in later weeks 3-7. The small round coefficients in Table 7 also show that there does not appear to be any general trend in players' choices over the 49 rounds.

	All periods	Week 1	Week 2	Week 3-7
Round (1-49)	-0.011 (-1.09)	-0.529 (-0.58)	-0.102 (-0.47)	0.0144 (1.10)
$t - 1$ winner	0.188** (10.55)	0.154** (3.55)	0.376* (2.20)	0.089* (1.98)
$t - 2$ winner	0.140** (7.43)	0.111* (1.99)	0.323 (1.28)	0.056 (1.26)
$t - 3$ winner	0.082** (4.10)	0.078 (1.13)	-0.057 (-0.26)	0.036 (0.83)
Fixed effects	Yes	Yes	Yes	Yes
Observations	3156	319	483	2354
$R^2$	0.05	0.12	0.01	0.00

\*=5 percent and \*\*=1 percent significance level. The table report results from a linear fixed effects panel regression. Only selected subjects are included.  $t$ -statistics within parentheses.

Table 7: Panel data regressions explaining individual play in the laboratory

The regression results in Table 7 mask a considerably degree of heterogeneity between individual subjects. In the post-experimental questionnaire, we asked people to state why they played as they did. Based on these responses we coded four variables depending on whether they mentioned each aspect as a motivation for their strategy.

**Random** All subjects who claimed that they played numbers randomly were coded in this category.<sup>24</sup>

<sup>24</sup>For example, one subject motivated this strategy choice in a particular sophisticated way: "First I tried logic, one number up or down, how likely was it that someone else would pick that, etc. That wasn't

**Stick** All subjects who stated that they stuck to one number throughout parts of the experiment were included in this category. Many of these subjects explained their choices by arguing that if they stuck with the same number, they would increase the probability of winning.

**Lucky** This category includes all subjects who claimed that they played a favorite or lucky number.

**Strategic** This category includes all players who explicitly motivated their strategy by referring to what the other players would do.<sup>25</sup>

Several subjects were coded into more than one category.<sup>26</sup> The fraction of subjects within each set of categories are reported in Table 8.

(%)	Random	Stick	Lucky	Strategic
Random	35.1	7.0	1.8	7.0
Stick		34.2	3.5	15.8
Lucky			10.5	4.4
Strategic				41.2

Table 8: Classification of self-reported strategies

How well does the classification based on the self-reported strategies explain behavior? Table 9 reports regressions where the dependent variables are four summary statistics of subjects’ behavior—the number of distinct choices, the mean number, the standard deviation of number, and the total payoff. In the first column for each measure of individual play only the four categories above are included as dummy variables. There are few statistically significant relationships. Subjects coded into the “Stick” category did tend to choose fewer numbers, and subjects coded as “Lucky” tend to pick higher and more highly varied numbers (high standard deviation). Table 9 also report regressions for the same dependent variable and some demographic variables.<sup>27</sup> The only statistically significant relationship is that subjects familiar with game theory tend to pick lower and

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doing any good, as someone else was probably doing the exact same thing. So I started mentally singing scales, and whatever number I was on in my head I typed in. This made it rather random. A couple of times I just threw curveballs from nowhere for the hell of it. I didn’t pay any attention to whether or not I was selected to play that round after the first 3 or so.”

<sup>25</sup>For example, one subject stated the following: “I tried to pick numbers that I thought other people wouldn’t think of—whatever my first intuition was, I went against. Then I went against my second intuition, then picked my number. After awhile, I just used the same # for the entire thing.”

<sup>26</sup>For example, the following subject was classified into all but the “Lucky” category: “At first I picked 4 for almost all rounds (stick) because it isn’t considered to be a popular number like 3 and 5 (strategic). Afterwards, I realized that it wasn’t helping so I picked random numbers (random).”

<sup>27</sup>Including demographic variables and the four categories in the same regressions does not affect any of the results reported here.

less dispersed numbers (though their payoffs are not higher). Note that the explanatory power is very low and that there are no significant coefficients in the regressions on the total payoff from the experiment. This suggests that it is hard to affect the payoff by using a particular strategy, which is consistent with the fully mixed equilibrium (where payoffs are the same for all strategies).

	# Distinct		Mean	Std. dev.		Payoff		
Random	0.529		-0.12	-0.93		-1.97		
	(0.97)		(-0.23)	(-0.85)		(-1.37)		
Stick	-1.14*		-0.43	-1.62		-0.65		
	(-2.19)		(-0.86)	(-1.55)		(-0.48)		
Lucky	0.79		2.00**	3.22*		0.39		
	(1.01)		(2.64)	(2.04)		(0.19)		
Strategic	0.33		-0.40	-1.04		0.24		
	(0.64)		(-0.81)	(-1.00)		(0.18)		
Age		-0.19	-0.05	-0.03		0.34		
		(-0.23)	(-0.59)	(-0.20)		(1.60)		
Female		-0.09	-0.37	-1.17		-0.39		
		(-0.19)	(-0.79)	(-1.19)		(-0.31)		
Income (1-4)		-0.33	-0.06	-0.37		0.53		
		(-1.30)	(-0.25)	(-0.72)		(0.81)		
Lottery player		0.05	-0.24	-0.00		-0.17		
		(0.10)	(-0.50)	(-0.00)		(-0.13)		
Game theory		-0.04	-1.17*	-2.09*		-0.89		
		(-0.08)	(-2.43)	(-2.08)		(-0.68)		
$R^2$	0.07	0.02	0.08	0.07	0.07	0.06	0.02	0.03
Obs.	113	113	113	113	113	113	113	113

Only selected choices are included in the calculation of the dependent variables.  $t$ -statistics within parentheses. Constant included in all regressions.  
 \*=5 percent and \*\*=1 percent significance level.

Table 9: Linear regressions explaining individual behavior

Figure 14 shows a histogram of the number of distinct numbers that subjects played during the experiments. Based only on choices when players were selected to participate, subjects played on average 9.46 different numbers. Only one subject played the same number in all rounds.

The questionnaire in one of the sessions also contained the three-question Cognitive Reflection Test (CRT) developed by Frederick (2005).<sup>28</sup> The purpose with collecting subjects' responses to the CRT is to get some measure of cognitive ability. In line with the

<sup>28</sup>The CRT consists of three questions, all of which would have an instinctive answer, and a counterintuitive, but correct, answer. See Frederick (2005) or the screenshot in Appendix D for the questions that we used.

results reported in Frederick (2005), a majority of the UCLA subjects answered only zero or one questions correctly. Interestingly, there does not appear to any relation between player’s behavior or payoff in the LUPI game and the number of correctly answered questions, but the sample size is small ( $n=38$ ). The number of correctly answered CRT questions is not significant when the four measures in Table 9 are regressed on the CRT score.

## 5 Field vs Lab

Throughout the history of experimental economics, there has been a a simmering debate about the extent to which laboratory experiments can tell us something about particular naturally-occurring situations outside the lab (e.g., Loewenstein, 1999). There are at least two concerns related to this argument. First, to what extent do the often abstract and highly structured games used in laboratory experiments represent phenomena in “real-world” settings? Second, to what extent do laboratory subjects’ behavior differ from humans in non-laboratory settings, for example because the subject pool is not representative or due to experimenter effects. In this paper, we address both these concerns. The laboratory experiment in this paper uses the same game—with a few minor modifications—as the game played in the field. The lab and field LUPI games differ, however, in time, location, context and demographics of the players. In the field LUPI game, players are self-selected from the Swedish population and play with their own money in a naturally occurring environment. Students at UCLA on the opposite side of the globe play as experimental subjects in a scrutinized laboratory setting.

Despite these differences, behavior in the laboratory and the field show striking similarities. Players in both the field and laboratory learn to play the game remarkably close to the Poisson equilibrium. The over- and undershooting and special-number discrepancies between their behavior and the equilibrium predictions are also similar. This forcefully demonstrates how economic theory bridges the field and the lab, as well as the power of experiments which are created to have crucial features of particular field settings to produce parallel behavior.

## 6 Conclusion

This paper studies a new game, LUPI, in which the lowest unique positive integer wins a fixed prize. The game has similarities with both congestion games (Rosenthal, 1973) and numerical ‘beauty-contest’ games (Nagel, 1995), but it is distinct from both. LUPI is a

close relative to auctions in which the lowest unique bid wins, but ignores complications from private values.

We characterized the Poisson-Nash equilibrium and analyzed people's behavior in this game using both an unusually clear field data set including more than 2.6 million choices, and parallel laboratory experiments. Despite the differences in context, location and participating players between the field and laboratory, we find that the behavior of the lottery-playing public in Sweden in a naturally occurring setting is very similar to the behavior of UCLA students in a laboratory environment.

In both the field and lab, players quickly learn to play close to equilibrium, but there are some remaining discrepancies between players' behavior and equilibrium predictions. These discrepancies can to some extent be accounted for by a cognitive hierarchy model with quantal responses. These findings demonstrate the remarkable force of traditional equilibrium analysis. Complex computations produce precise predictions about a sharp dropoff in strategies, around 5518 in the field data and 15 in the lab data. Choices do drop off sharply, but drop off below the equilibrium dropoff point. The data also demonstrate the ability of parameterized behavioral models of cognitive hierarchies to explain both why the equilibrium prediction is such a surprisingly accurate approximation, and to explain the regular deviations from equilibrium.

Our two major conclusions are also visible in a preliminary working paper on lowest unique price auctions (LUPA) for money and consumer goods by Eichberger and Vinogradov (2007) (though their theory is only approximately worked out and does not use the Poisson structure). Among inexperienced bidders there are too many low and high bids and too few bids just below the equilibrium cutoff. But there is learning across auctions and in general the bid distributions are remarkably close to equilibrium. The parallelism of their conclusions and ours suggests that what we have learned from the artificial LUPI game might also apply to naturally-occurring auctions and perhaps other economic settings.

## Appendix [For referees and online availability only]

### A. The Symmetric Fixed-n Nash Equilibrium

Let there be a finite number of  $n$  players that each pick an integer between 1 and  $K$ . If there are numbers that are only chosen by one player, then the player that picks the lowest such number wins a prize, which we normalize to 1, and all other players get zero. If there is no number that only one player chooses, everybody gets zero.

To get some intuition for the equilibrium in the game with many players, we first consider the cases with two and three players. If there are only two players and two numbers to choose from, the game reduces to the following bimatrix game.

	1	2
1	0, 0	1, 0
2	0, 1	0, 0

This game has three equilibria. There are two asymmetric equilibria in which where one player picks 1 and the other player picks 2, and one symmetric equilibrium in which both players pick 1.

Now suppose that there are three players and three numbers to choose from (i.e.,  $n = K = 3$ ). In any pure strategy equilibrium it must be the case that at least one player plays the number 1, but not more than two players play the number 1 (if all three play 1, it is optimal to deviate for one player and pick 2). In pure strategy equilibria where only one player plays 1, the other players can play in any combination of the other two numbers. In pure strategy equilibria where two players play 1, the third player plays 2. In total there are 18 pure strategy equilibria. To find the symmetric mixed strategy equilibrium, let  $p_1$  denote the probability with which 1 is played and  $p_2$  the probability with which 2 is played. The expected payoff from playing the pure strategies if the other two players randomize is given by

$$\begin{aligned}\pi(1) &= (1 - p_1)^2, \\ \pi(2) &= [(1 - p_1 - p_2)^2 + p_1^2], \\ \pi(3) &= [p_1^2 + p_2^2].\end{aligned}$$

Setting the payoff from the three pure strategies yields  $p_1 = 2\sqrt{3} - 3 = 0.464$  and  $p_2 = p_3 = 2 - \sqrt{3} = 0.268$ .

In the game with  $n$  players, there are numerous asymmetric pure strategy equilibria as in the three-player case. For example, in one type of equilibrium exactly one player

picks 1 and the other players pick the other numbers in arbitrary ways. In order to find symmetric mixed strategy equilibria, let  $p_k$  denote the probability put on number  $k$ . In a symmetric mixed strategy equilibrium, the distribution of guesses will follow the multinomial distribution. The probability of  $x_1$  players guessing 1,  $x_2$  players guessing 2 and so on is given by

$$f(x_1, \dots, x_K; n) = \begin{cases} \frac{n!}{x_1! \cdots x_K!} p_1^{x_1} \cdots p_K^{x_K} & \text{if } \sum_{i=1}^K x_i = n, \\ 0 & \text{otherwise,} \end{cases}$$

where we use the convention that  $0^0 = 1$  in case any of the numbers is picked with zero probability. The marginal density function for the  $k^{\text{th}}$  number is the binomial distribution

$$f_k(x_k; n) = \frac{n!}{x_k!(n-x_k)!} p_k^{x_k} (1-p_k)^{n-x_k}.$$

Let  $g_k(x_1, x_2, \dots, x_k; n)$  denote the marginal distribution for the first  $k$  numbers. In other words, we define  $g_k$  for  $k < K$  as

$$g_k(x_1, x_2, \dots, x_k; n) = \sum_{x_{k+1}+x_{k+2}+\dots+x_K=n-(x_1+x_2+\dots+x_k)} \frac{n!}{x_1!x_2!\cdots x_K!} p_1^{x_1} p_2^{x_2} \cdots p_K^{x_K}.$$

Using the multinomial theorem we can simplify this to<sup>29</sup>

$$g_k(x_1, x_2, \dots, x_k; n) = \frac{n!}{x_1! \cdots x_k!} p_1^{x_1} \cdots p_k^{x_k} \frac{(p_{k+1} + p_{k+2} + \cdots + p_K)^{n-(x_1+x_2+\dots+x_k)}}{(n-(x_1+x_2+\dots+x_k))!}.$$

If  $k = K$ , then  $g_k(x_1, x_2, \dots, x_k; n) = f(x_1, x_2, \dots, x_k; n)$ . Finally, let  $h_k(n)$  denote the probability that nobody guessed  $k$  and there is at least one number between 1 to  $k-1$  that only one player guessed. This probability is given by (again if  $k < K$ )

$$h_k(n) = \sum_{\substack{(x_1, \dots, x_{k-1}): \text{some } x_i=1 \\ \& x_1+\dots+x_{k-1} \leq n}} g_k(x_1, x_2, \dots, x_{k-1}, 0; n).$$

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<sup>29</sup>The multinomial theorem states that the following holds

$$(p_1 + p_2 + \cdots + p_K)^n = \sum_{x_1+x_2+\dots+x_K=n} \frac{n!}{x_1!x_2!\cdots x_K!} p_1^{x_1} p_2^{x_2} \cdots p_K^{x_K},$$

given that all  $x_i \geq 0$ .

If  $k = K$ , then this probability is given by

$$h_K(n) = \sum_{\substack{(x_1, \dots, x_{K-1}): \text{ some } x_i=1 \\ \& x_1 + \dots + x_{K-1} = n}} f(x_1, x_2, \dots, x_{K-1}, 0; n).$$

The probability of winning when guessing 1 and all other players follow the symmetric mixed strategy is given by

$$\pi(1) = f_1(0; n-1) = (1 - p_1)^{n-1}.$$

The probability of winning when playing  $1 < k < K$  is given by<sup>30</sup>

$$\begin{aligned} \pi(k) &= f_k(0; n-1) - h_k(n-1), \\ &= (1 - p_k)^{n-1} - h_k(n-1). \end{aligned}$$

Similarly, the probability of winning when playing  $k = K$  is given by

$$\pi(K) = f_K(0; n-1) - h_K(n-1).$$

In a symmetric mixed strategy equilibrium, the probability of winning from all pure strategies in the support of the equilibrium must be the same. In the special case when  $n = K$  and all numbers are played with positive probability, we can simply solve the system of  $K - 2$  equations where each equation is

$$(1 - p_k)^{n-1} - h_k(n-1) = (1 - p_1)^{n-1},$$

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<sup>30</sup>The easiest way to see this is to draw a Venn diagram. More formally, let  $A = \{\text{No other player picks } k\}$  and let  $B = \{\text{No number below } k \text{ is unique}\}$ , so that  $P(A) = f_k(0; n-1)$  and  $P(B) = h_k(n-1)$ . We want to determine  $P(A \cap B)$ , which is equal to

$$P(A \cap B) = P(A) + P(B) - P(A \cup B).$$

To determine  $P(A \cup B)$ , note that it can be written as the union between two independent events

$$P(A \cup B) = P(B \cup (B' \cap A)).$$

Since  $B$  and  $B' \cap A$  are independent,

$$P(A \cup B) = P(B) + P(B' \cap A).$$

Combining this with the expression for  $P(A \cap B)$  we get

$$P(A \cap B) = P(A) - P(A \cap B').$$



for all  $2 < k < K$  and the  $K$ th equation

$$(1 - p_K)^{n-1} - h_K(n-1) = (1 - p_1)^{n-1}.$$

In principle, it is straightforward to solve this system numerically. However, computing the  $h_k$  function is computationally explosive because it requires the summation over a large set of vectors of length  $k-1$ . The number of combinations explodes as  $n$  and  $K$  gets large and it is non-trivial to solve for equilibrium for more than 8 players. As an illustration, when  $n = K = 7$ ,  $h_7(6)$  involves the summation over 391 vectors, and when  $n = K = 8$  computing  $h_8(7)$  involves 1520 vectors. To understand the magnitude of the complexity, suppose we want to compute  $h_K(n-1)$ . This involves the summation over all vectors  $(x_1, \dots, x_{K-1})$  such that some  $x_i = 1$  and  $x_1 + \dots + x_{K-1} = n-1$ . Only a small subset of all these vectors are the ones where  $x_1 = 1$ . How many such vectors are there? For those vectors there must be  $n-2$  players that play numbers  $x_2, \dots, x_{K-1}$ , i.e., potentially  $K-2$  different strategies. The total number of such vectors are

$$\frac{(K+n-5)!}{(n-2)!(K-3)!},$$

where we have used the fact that the number of sequences of  $n$  natural numbers that sum to  $k$  is  $(n+k-1)!/(k!(n-1)!)$ . For example, when  $n = 27$  and  $K = 99$ , the number of vectors in which  $x_1 = 1$  is larger than  $10^{25}$ . Note that this number is much lower than the actual total number of vectors since we have only counted vectors such that  $x_1 = 1$ .

Assuming  $n = K$ , the table below show the equilibrium for up to eight players.

	<b>3x3</b>	<b>4x4</b>	<b>5x5</b>	<b>6x6</b>	<b>7x7</b>	<b>8x8</b>
<b>1</b>	0.4641	0.4477	0.3582	0.3266	0.2946	0.2710
<b>2</b>	0.2679	0.4249	0.3156	0.2975	0.2705	0.2512
<b>3</b>	0.2679	0.1257	0.1918	0.2314	0.2248	0.2176
<b>4</b>		0.0017	0.0968	0.1225	0.1407	0.1571
<b>5</b>			0.0376	0.0216	0.0581	0.0822
<b>6</b>				0.0005	0.0110	0.0199
<b>7</b>					0.0004	0.0010
<b>8</b>						0.0000

Note that these probabilities are close to the Poisson equilibrium reported in the text (all probabilities above 5x5 are within 0.02.) We conjecture that there is a unique symmetric equilibrium of the game with fixed number of players that converges to the Poisson equilibrium as  $n$  increases. However, we have not been able to prove this conjecture (or

its opposite).<sup>31</sup>

## B. Computational and Estimation Issues

This appendix provides details about the numerical computations and estimations that are reported in the paper. We have used MATLAB 7.4.0 for all computations and estimations. Both the data and all MATLAB programs that have been used for the paper can be obtained from the authors upon request.

### Poisson Equilibrium

The Poisson equilibrium was computed in MATLAB through iteration of the equilibrium condition (1).

### Fixed-n Equilibrium

To compute the equilibrium when the number of players is fixed and commonly known, we programmed the functions  $f_k$ ,  $f_K$ ,  $h_k$  and  $h_K$  in MATLAB and then solved the system of equations characterizing equilibrium using MATLAB's solver `fsolve`. However, the  $h_k$  function includes the summation of a large number of vectors. For high  $k$  and  $n$  the number of different vectors involved in the summation grows explosively and we only managed solve for equilibrium for up to 8 players.

### Cognitive Hierarchy with Quantal Response

Calculating the cognitive hierarchy prediction for a given  $\tau$  and  $\lambda$  is straightforward. However, the cognitive hierarchy prediction is non-monotonic in  $\tau$  and  $\lambda$ , implying that the log-likelihood function isn't generally smooth.

In order to calculate the log-likelihood, we assume that all players at a fixed level  $K$  play according to the same cognitive hierarchy prediction, i.e., the log-likelihood function is calculated using the multinomial distribution as if all players played the same strategy. For the field data, we calculated the log-likelihood for the daily average frequency for each week, but the frequency was rounded to integers in order to be able to calculate the log-likelihood. For the lab data, we instead calculated the log-likelihood by summing the frequencies for each week since we didn't want unnecessary estimation errors due to rounding off to integers.

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<sup>31</sup>In addition, when numerically solving for equilibrium with different starting values we have not found any other equilibria than the ones reported above.

Maximum likelihood estimation for the field data is computationally demanding so we used a relatively coarse two-dimensional grid search. We used a 20x20 grid and restricted  $\tau$  to be between 0.05 and 12, and restricted  $\lambda$  to be between 0.0001 and 0.05. We tried wider bounds on the parameters as well, but that didn't change the results. The log-likelihood function is shown in Figure A5. The log-likelihood appears relatively smooth, but since we have been forced to use a very coarse grid we might not have found the global maximum.

For the maximum likelihood estimation of the lab data, we used a two-dimensional 300x300 grid search. We tried different bounds on  $\tau$  and  $\lambda$ , then let both parameters vary between 0.001 and 20. The two-dimensional log-likelihood function is shown in Figure A6. It is clear that the log-likelihood function isn't smooth. There is therefore no guarantee that we have found a global maximum, but we have tried different grid sizes and bounds on the parameters.

When  $\tau$  is fixed at 1.5, the maximum likelihood estimation is simpler. We used a grid size of 300 and tried different bounds for  $\lambda$  with unchanged results. The log-likelihood function for  $\lambda = 0.001$  to  $\lambda = 100$  from the first week is shown in Figure A7. The log-likelihood function is not globally concave, but seems to be concave around the global maximum, so it is likely that we have found a global maximum.

## QRE

In order to calculate the QRE for a given level of  $\lambda$ , we used MATLAB's solver `fsolve` to solve the fixed-point equation that characterizes the QRE. In the ML estimation for the laboratory data we allowed  $\lambda$  between 0.001 and 700. To find the optimal value we used a grid search with a grid size of 50. The log-likelihood function for the first week is shown in Figure A8. The log-likelihood function is smooth and concave, indicating that we have are likely to have found a global maximum. In some of the cases the estimated  $\lambda$  is very high, in which case there might be a computational problem when calculating the QRE. However, for such high  $\lambda$ , the QRE is practically undistinguishable from the Poisson equilibrium anyway (as shown in Figure 2).

## C. Information in the field LUPI game

The game was heavily advertised around the days when it was launched and the main message was that this was a new game where you should be alone with the lowest number. The winning numbers (for the first, second, and third prizes) were reported on TV, text-TV and the Internet every day. In the TV programs they reported not only the winning numbers, but also commented briefly about how people had played previously.

The richest information about the history of play was given on the home page of Svenska Spel. People could display and download the frequencies of all numbers played for all previous days. However, this data was presented in a raw format and therefore not very accessible. The homepage also displayed a histogram of yesterday's guesses which made the data easier to digest. An example of how this histogram looked is shown in Figure A9. The homepage also showed the total number of bets that had been made so far during the day.

The web interface for online play also contained some easily accessible information. Besides links to the data discussed above as well as information about the rules of the game, there were some pieces of statistics that could easily be displayed from the main screen. The default information shown was the first name and home town of yesterday's first prize winner and the number that that person guessed. By clicking on the pull-down menu in the middle, you could also see the seven most popular guesses from yesterday. This information was shown in the way shown in Figure A10. By moving the mouse over the bars you can see how many people guessed that number. In this example, the most popular number was 1234 with 85 guesses! Note that this information was not easily available before online play was possible. From the same pull-down menu, you could also see the total number of distinct numbers people guessed on during the last seven days. Finally, you could display the numbers of the second- and third prize winners of yesterday.

In addition to this information, Svenska Spel also published posters (and PDF) with summary statistics for previous rounds of the game (see Figure A11). The information given on these posters varied slightly, but the one in Figure A11 shows the winning numbers, the number of bets, the size of the first prize and if there was any numbers below the winning number that no other player chose. It also shows the average, lowest and highest winning number, as well as the most frequently played numbers.

## D. The LUPI Lab Instruction Sheet

Screenshots from the input and results screens of the laboratory experiment are shown in Figure A12 and A13. Figure A14 shows screenshots from the post-experimental questionnaire and Figure A15 a screenshot from the CRT. Instructions for the laboratory experiment are as follows (translated directly by author Robert Östling from the Swedish field instructions, but modified in order to fit the laboratory game):

### **Instruction for Limbo**<sup>32</sup>

**Limbo is a game** in which you choose to play a number, between 1 and 99, that you think nobody else will play in that round. The lowest number that has been played only

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<sup>32</sup>In order to mirror the field game as closely as possible, we referred to the LUPI game as "Limbo" in the lab.

once wins.

**The total number of rounds will not be announced.** At the beginning of each round, the computer will indicate whether you have been selected to participate in that round. The computer selects participating players randomly so that the average number of participating players in each round is 26.9. Please choose a number even if you are not selected to participate in that round.

After all participating players have selected a number, the round is closed and all bets are checked. The lowest unique number that has been received is identified and the person that picked that number is awarded a prize of 7\$.

**The winning number is reported** on the screen and shown to everybody after each round.

**Prizes are paid out** to you at the end of the experiment.

**If you have any questions**, raise your hand to get the experimenter's attention. Please be quiet during the experiment and do not talk to anybody except the experimenter.

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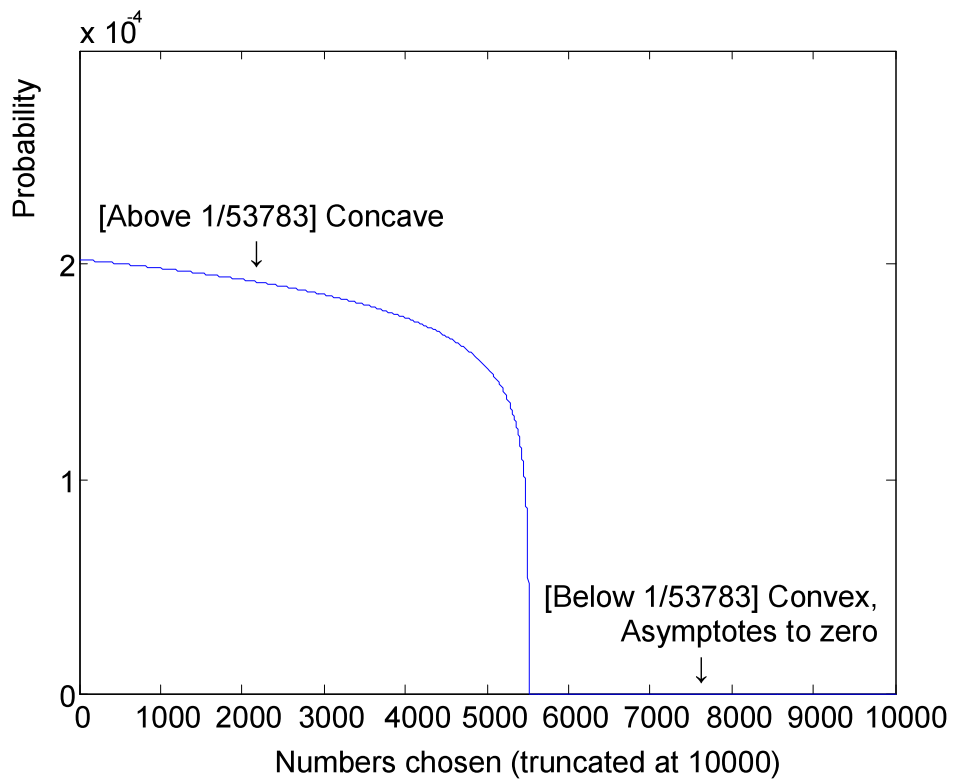


Figure 1. Poisson equilibrium for the LUPI game ( $n=53783$ ,  $K=99999$ ).

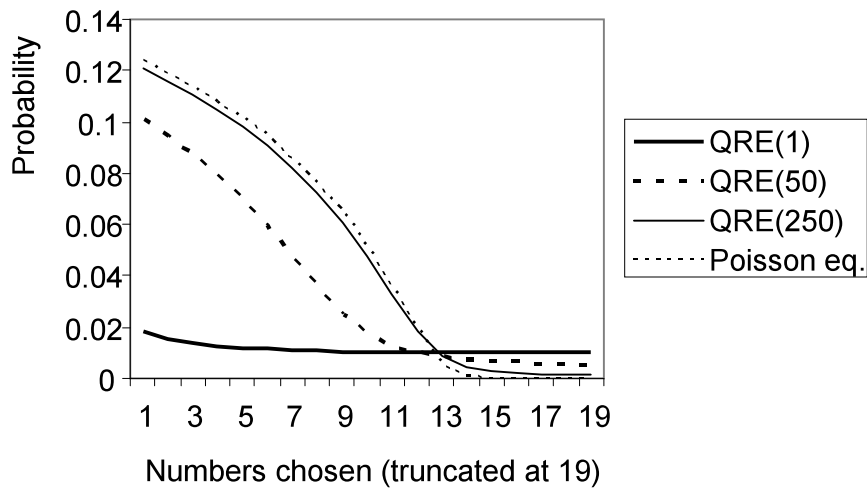


Figure 2. Probability of choosing numbers 1 to 19 in symmetric logit QRE ( $n=26.9$ ,  $K=99$ ).

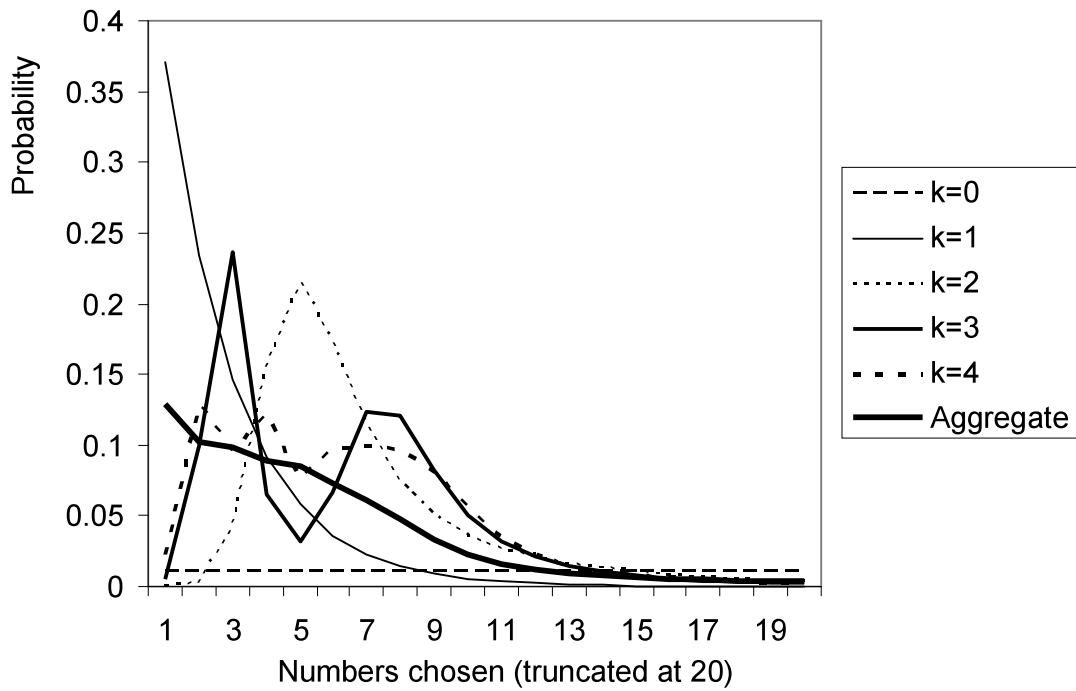


Figure 3. Probability of choosing numbers 1 to 20 in cognitive hierarchy model ( $n=26.9$ ,  $K=99$ ,  $\tau=1.5$ ,  $\lambda=2$ ).

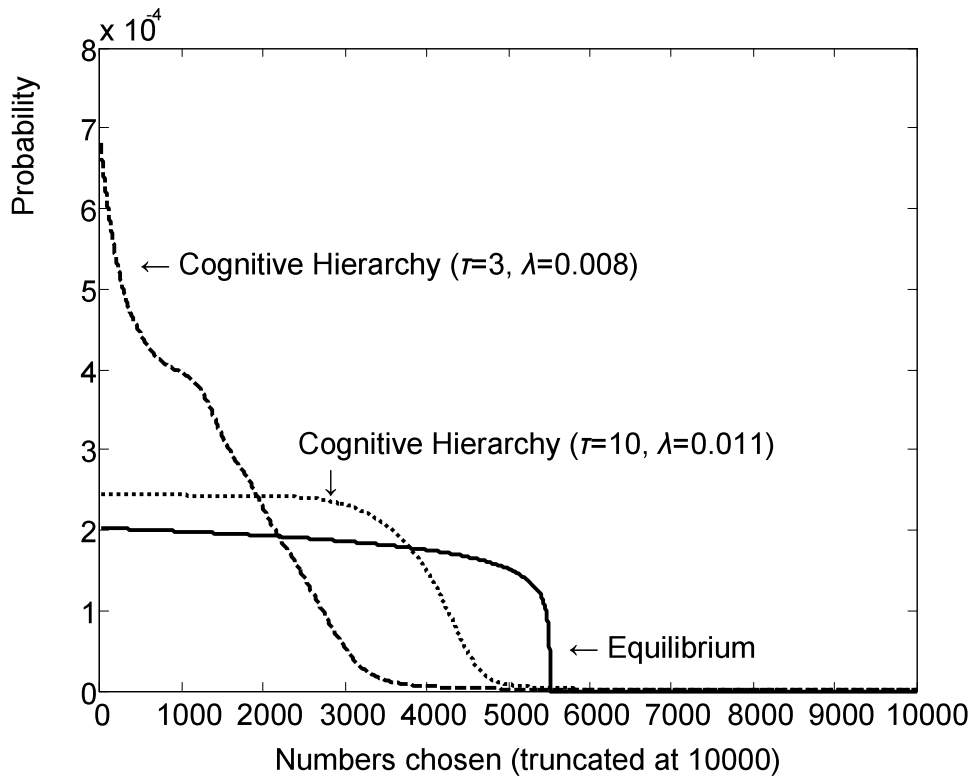
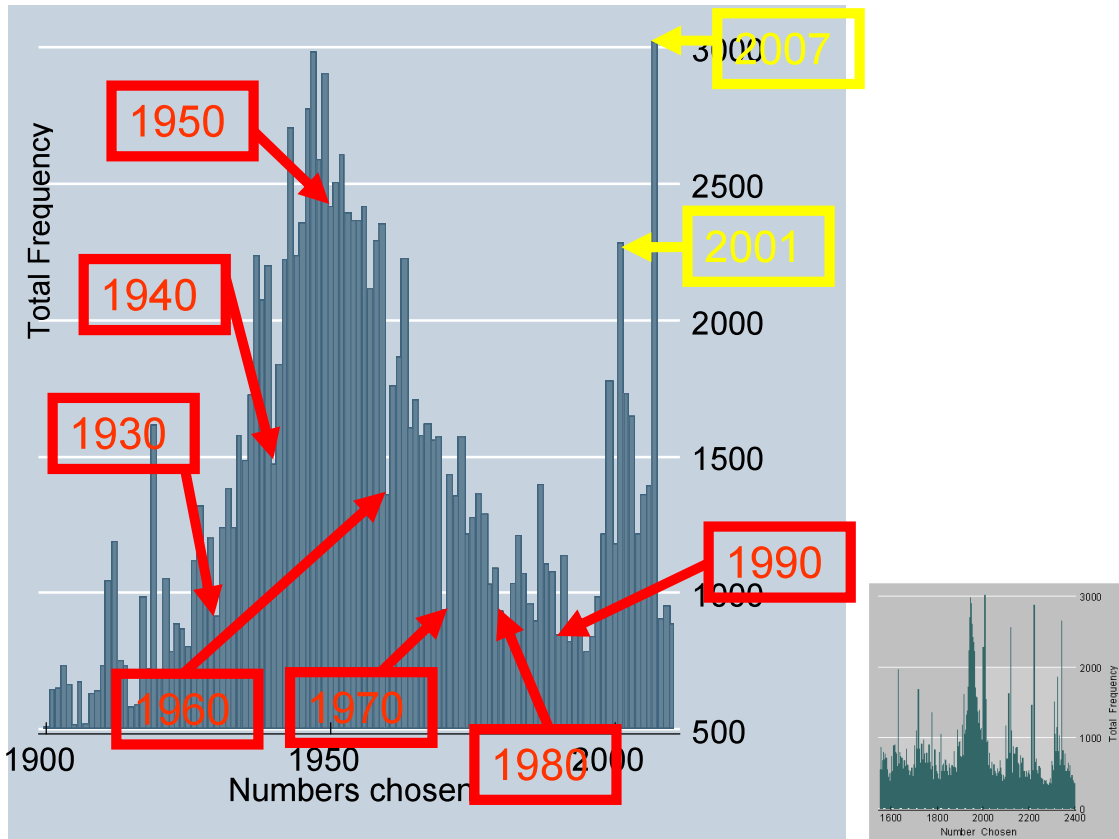
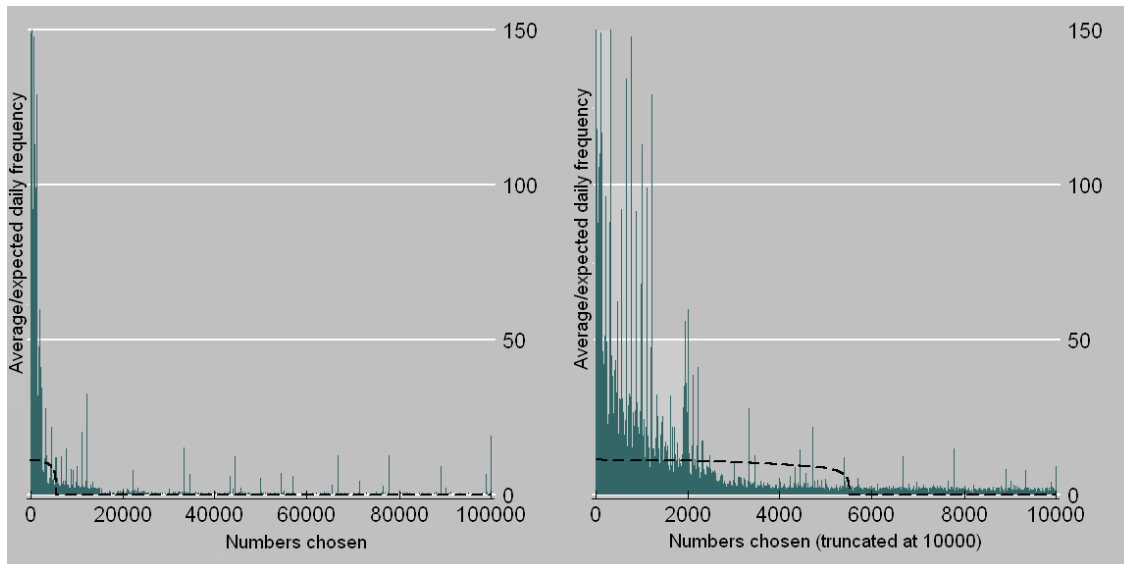


Figure 4. Probability of choosing numbers 1 to 10000 in equilibrium and cognitive hierarchy models ( $n=53783$ ,  $K=99999$ ).

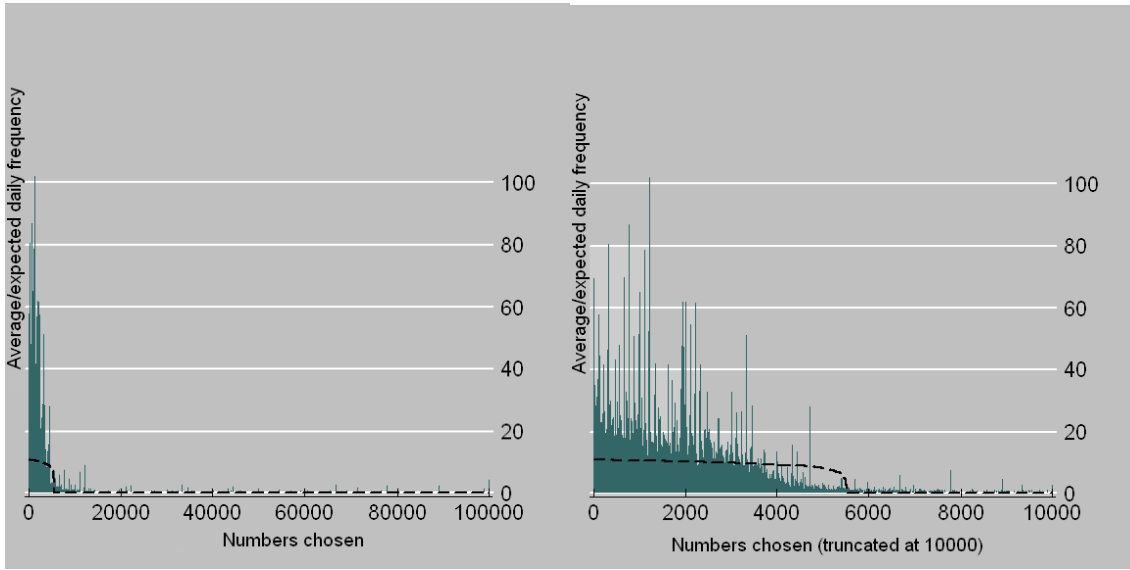




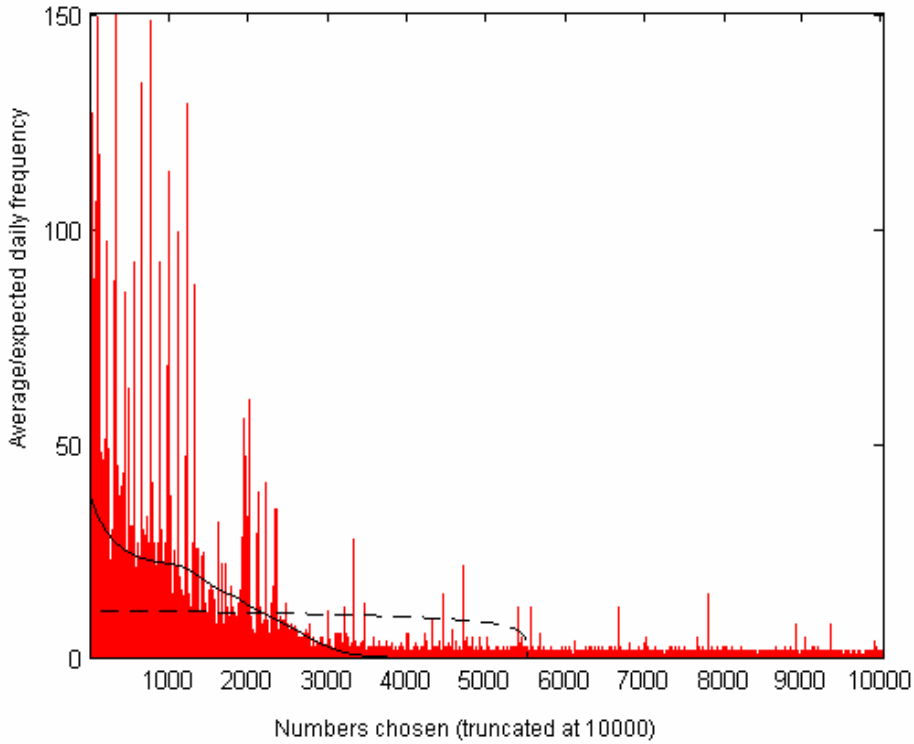
**Figure 5. Numbers chosen between 1900 and 2010, and between 1550 and 2400, during all days in the field.**



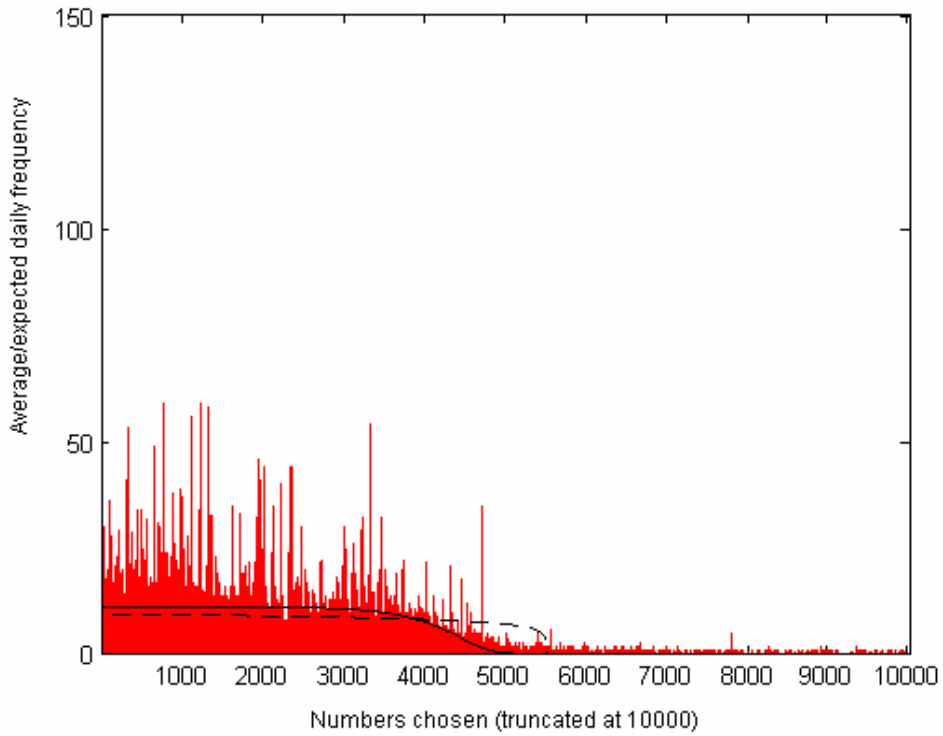
**Figure 6. Average daily frequencies and equilibrium prediction for the first week in the field.**



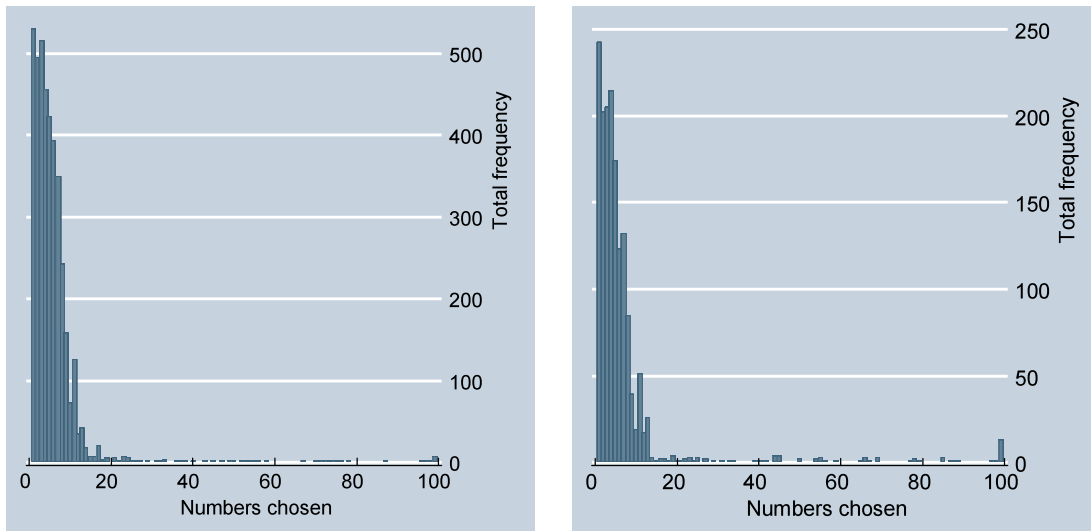
**Figure 7. Average daily frequencies and equilibrium prediction for week 2-7 in the field.**



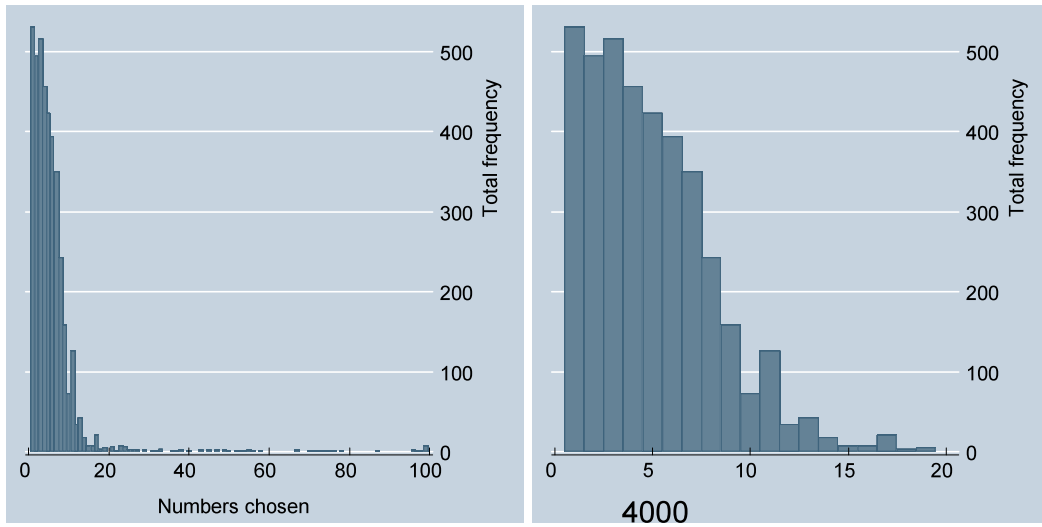
**Figure 8. Average daily frequencies, cognitive hierarchy (solid line) and equilibrium prediction (dashed line) for the first week in the field.**



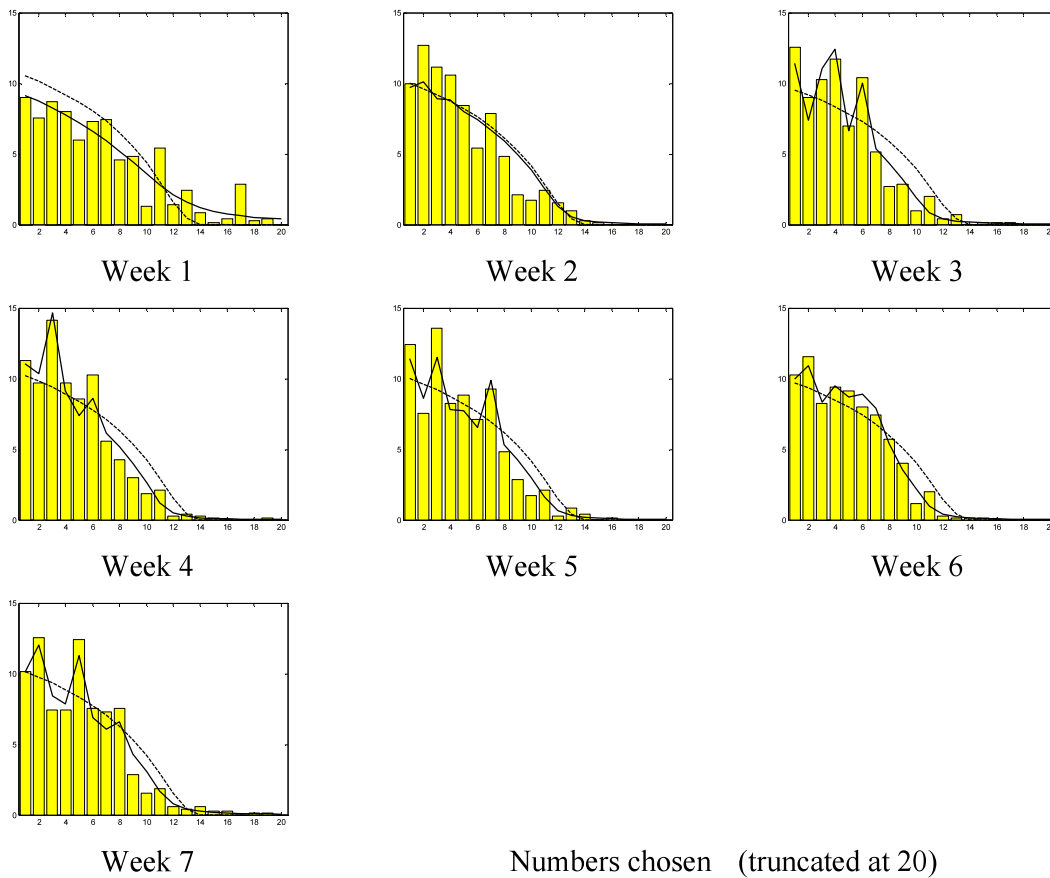
**Figure 9 Average daily frequencies, cognitive hierarchy (solid line) and equilibrium prediction (dashed line) for the last week in the field.**



**Figure 10. Laboratory total frequencies, selected (left) vs non-selected (right) subjects.**

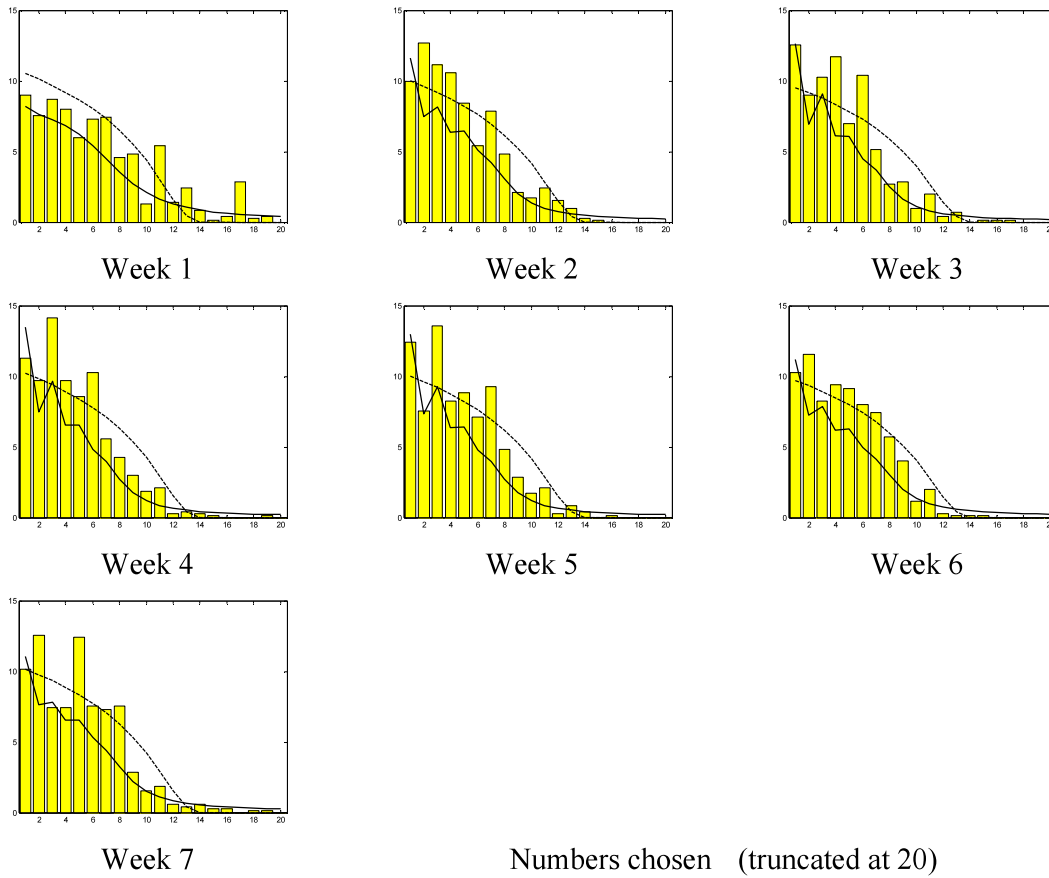


**Figure 11. Laboratory total frequencies (all sessions, participating players only)**

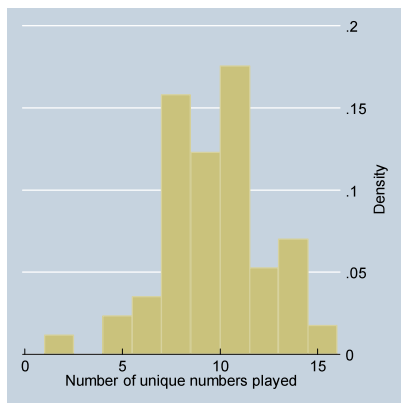


**Figure 12. Average daily frequencies in the laboratory, equilibrium prediction (dashed lines) and estimated cognitive hierarchy (solid lines), week 1 to 7.**

Average/expected daily frequency



**Figure 13.** Average daily frequencies in the laboratory, equilibrium prediction (dashed lines) and estimated cognitive hierarchy (solid lines) when  $\tau = 1.5$  (line), week 1 to 7.



**Figure 14.** Histogram of the number of different numbers chosen by subjects (selected subjects' choices from all sessions)

Ensam med lägst nummer vinner.

# Limbo



Välj ett nummer mellan 1 och 99 999.

1. Kryssa ett nummer per spelfält (A-F). Ex. nummer 2 kryssas: 00002
2. Kryssa antal spelomgångar du vill spela.

18  
SPEL FÖR DIG  
ÖVER 18 ÅR

**A**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

**B**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

**C**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

**D**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

**E**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

**F**

0	0	0	0	0	0
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9

Hux Flux ▶  Ja

Kryssa antal spelomgångar i följd:

1	2	3	4	5	6	7
---	---	---	---	---	---	---

**Insats:**

10 kronor per spelat nummer (A-F),  
multipliserat med antal spelomgångar.  
Spel för dig med Spelkort.

06

Figure A1. The paper entry form for the Swedish LUPI (Limbo) game.



Figure A2. Online entry interface for the Swedish LUPI (Limbo) game.

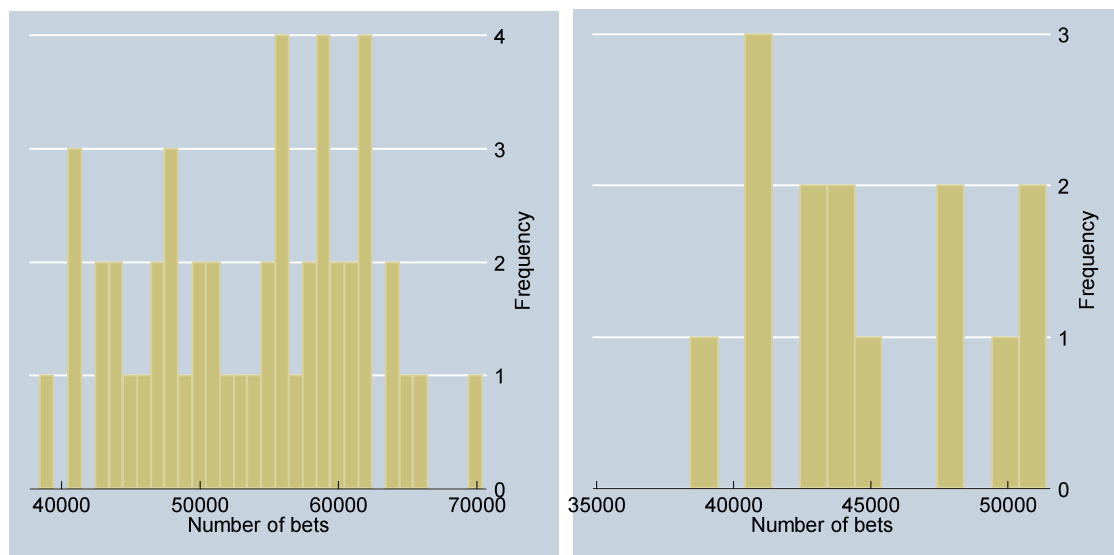
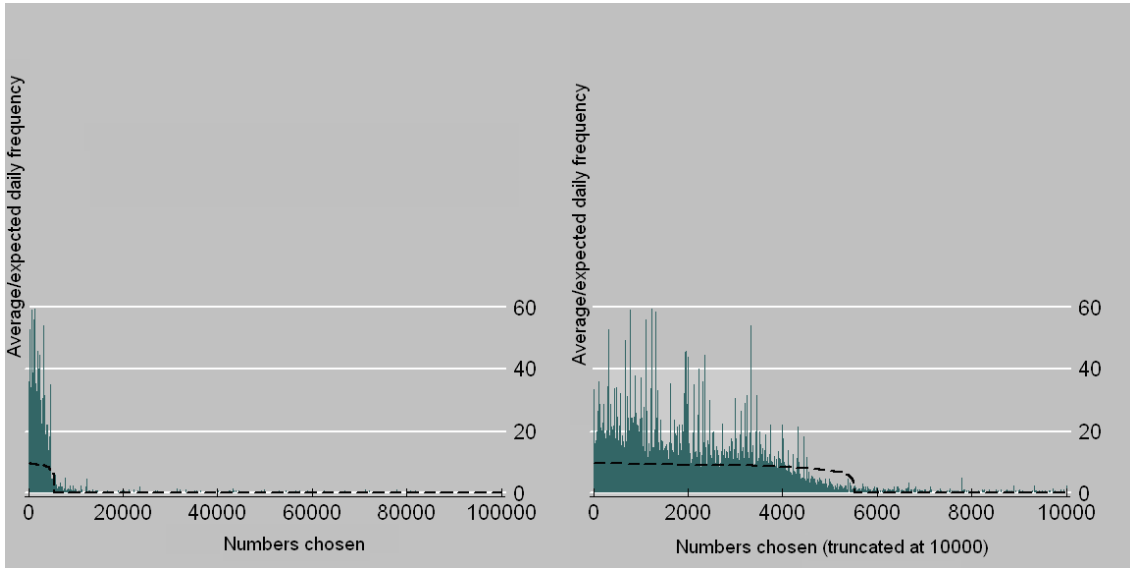
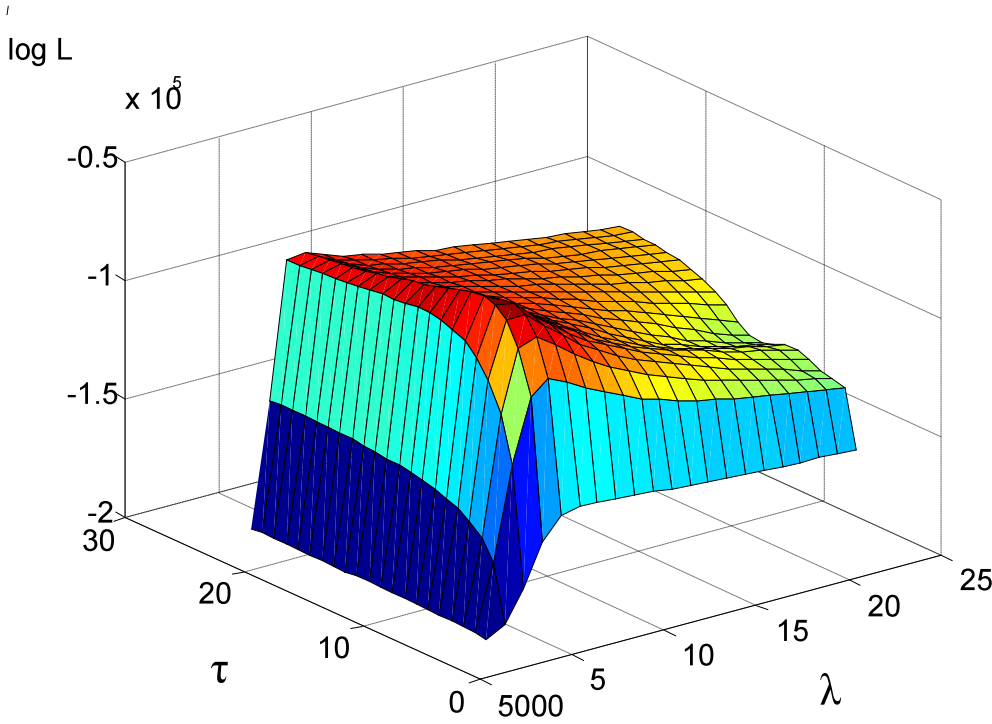


Figure A3. Total number of daily bets on all days (left) and Sundays and Mondays (right)

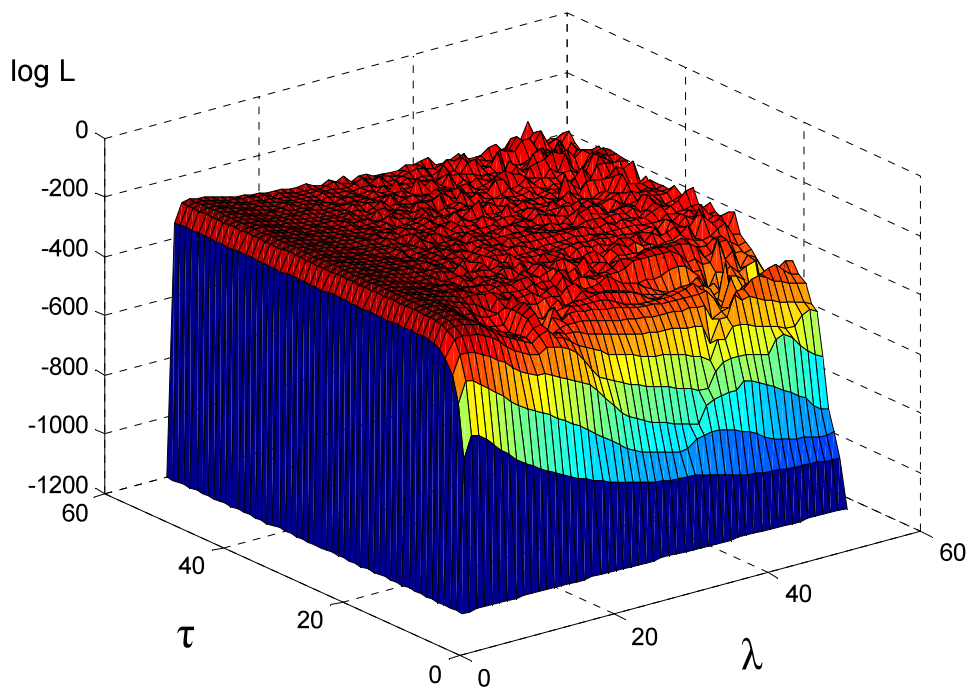


**Figure A4. Average daily frequencies and equilibrium prediction for the last week in the field.**

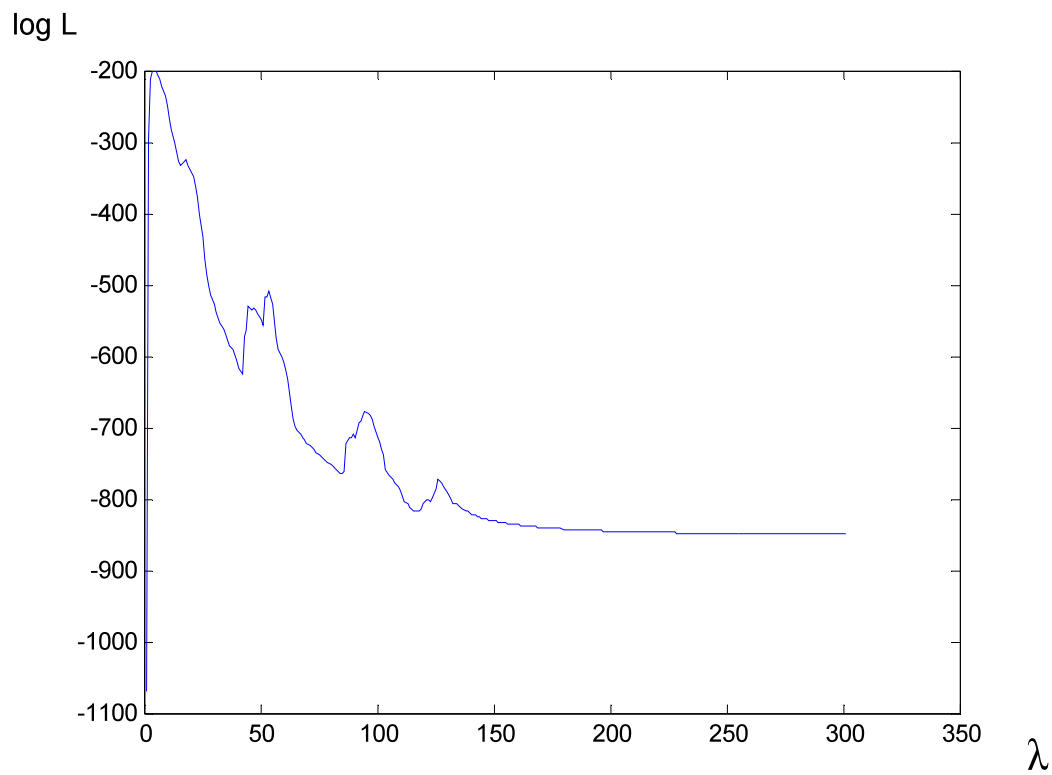


**Figure A5. Log-likelihood for cognitive hierarchy in the field (first week)**





**Figure A6. Log-likelihood for cognitive hierarchy in the laboratory (first week)**



**Figure A7. Log-likelihood function for cognitive hierarchy in the laboratory (first week,  $\tau=1.5$ ).**

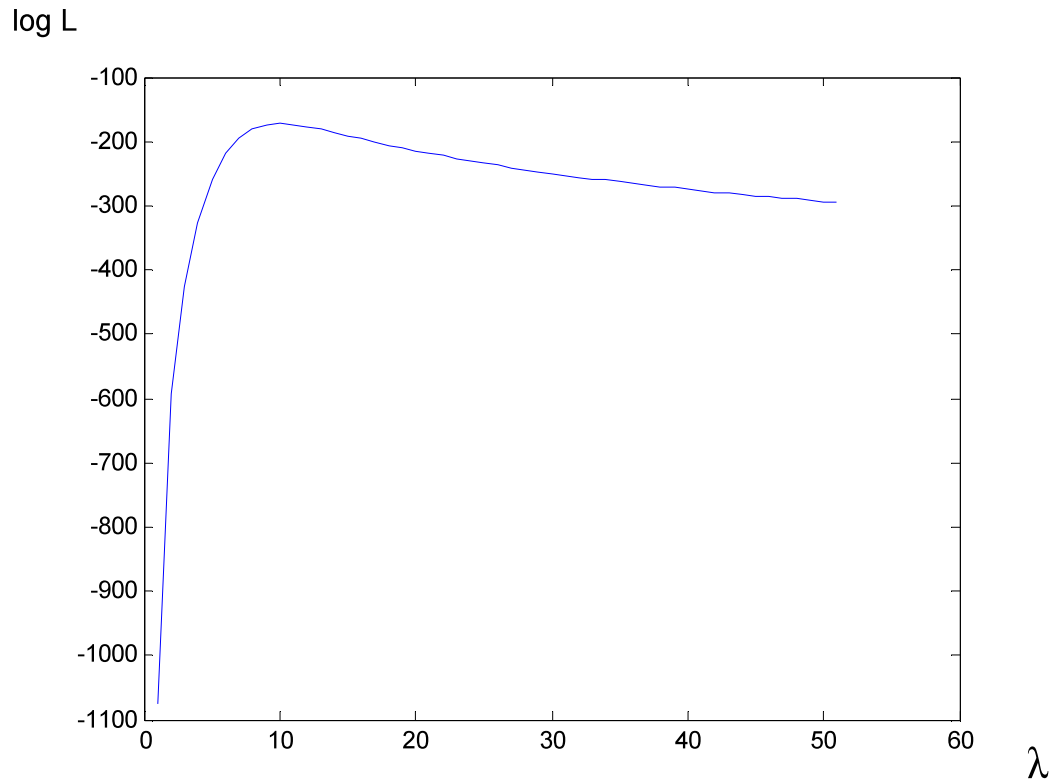


Figure A8. Log-likelihood function for QRE in the laboratory (first week).

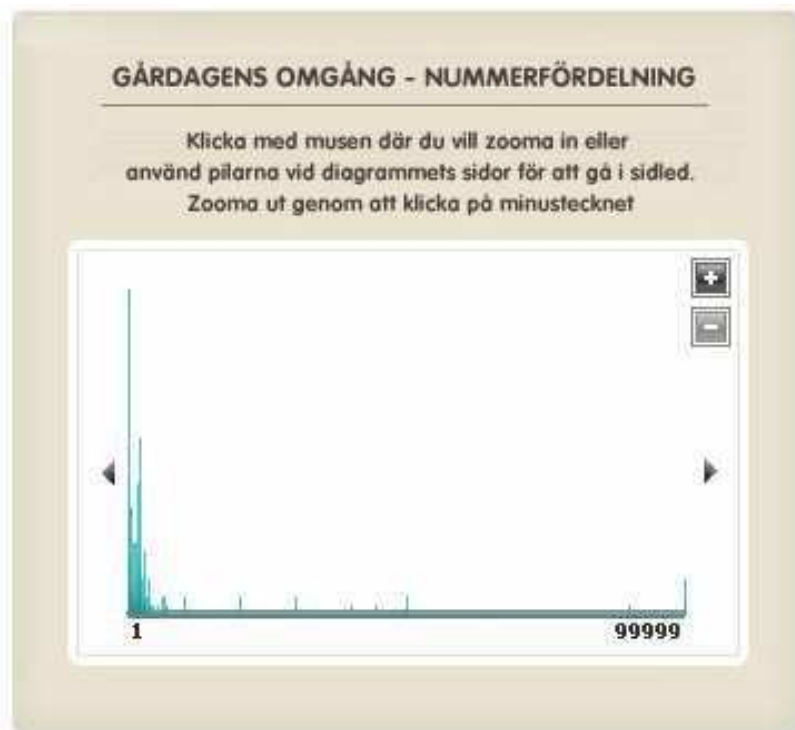


Figure A9. Histogram of yesterday's bets as shown online



Figure A10. Most popular numbers yesterday as shown online

## Limbo – hur lågt vågar du gå?

Hur har spelet sett ut, hur tänker spelarna, hur tänker du, har ditt turnummer vunnit? Ta hjälp av vår statistik och häng med i spelet.

Datum	Limbonr.	Vinstbelopp	Antal vad	Lägre ospelade nr.
12 feb	162	100 550:-	45 302	-
13 feb	2573	100 014:-	46 728	-
14 feb	3063	100 578:-	55 720	2994
15 feb	2540	105 390:-	58 484	-
16 feb	3590	118 091:-	65 525	3545
17 feb	3353	102 945:-	57 171	-
18 feb	206	100 179:-	39 933	-
19 feb	1186	100 180:-	47 927	-
20 feb	1566	100 263:-	50 296	-
21 feb	2939	100 007:-	51 785	-
22 feb	402	100 047:-	48 150	-
23 feb	2969	104 562:-	58 065	-
24 feb	3475	101 201:-	56 211	-
25 feb	190	100 016:-	40 862	-

Fredag är en populär Limbodag. Det innebär ju också att det är höga vinstnummer - eller...? Här kommer några snabba fakta från de 4 första veckorna med Limbo!

- Högsta vinstbelopp: 126 009:-
- Genomsnittligt vinnande nr: 1733
- Lägst vinnande nr: 162
- Mest frekvent spelade nummer: 1, 7, 11, 13
- Högsta vinnande nr: 3590

Kom ihåg att du varje dag kan spela upp till 6 st unika nummer mellan 1-99 999, med hjälp av statistiken kan du komma fram till en bra strategi hur du skall sprida just dina nummer. Glöm inte att du måste ha Spelkortet när du spelar Limbo. Har du inget Spelkort så ber du ombudet om hjälp så ordnar de ett sådant till dig och sedan är det bara att börja spela! Se [www.svenskaspel.se](http://www.svenskaspel.se) för vidare info. Bli unik i ditt spelande!

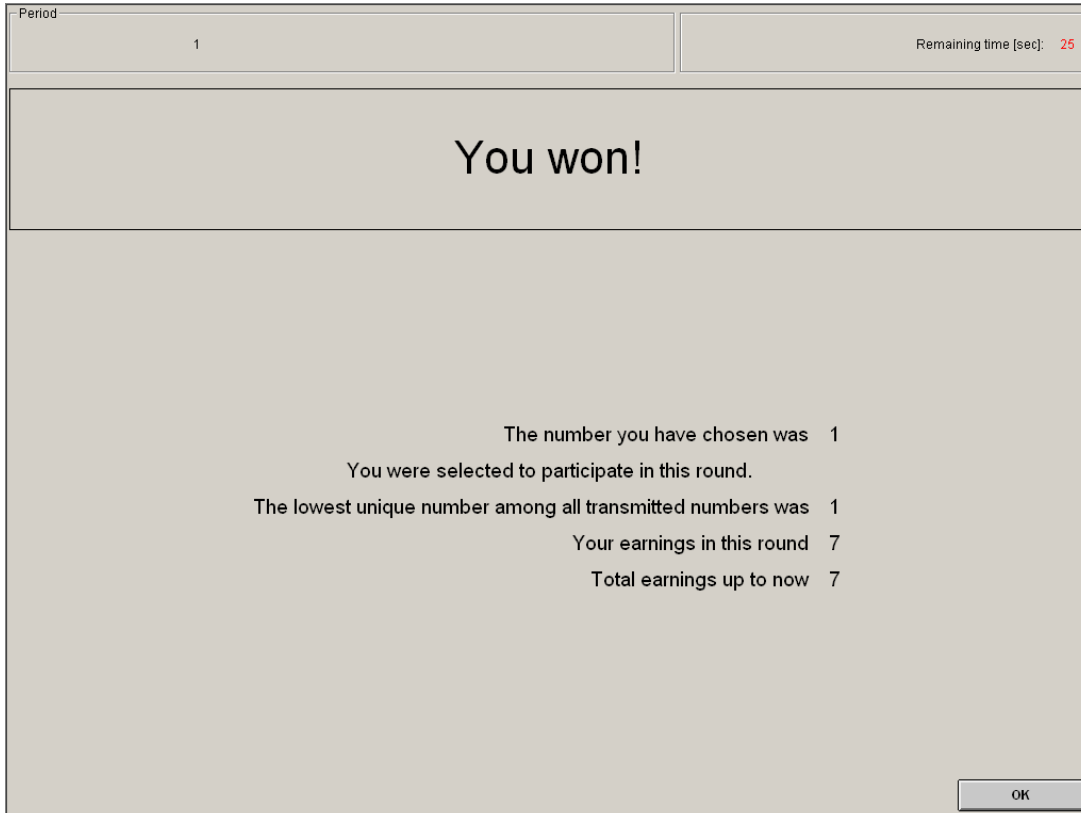
# Limbo

Ensam med lägst nummer vinner

Figure A11. Example of Limbo poster



**Figure A12. Screenshot of input screen in the laboratory experiment**



**Figure A13. Screenshot of result screen in the laboratory experiment**

<p><b>Background Information</b></p> <p>What is your gender?  <input type="radio"/> female  <input type="radio"/> male</p> <p>How old are you?  <input type="text"/></p> <p>Do you speak any languages other than English?  <input type="radio"/> yes  <input type="radio"/> no</p> <p>If so, please list them below, along with their fluency.  <input type="text"/></p> <p>Which of the following percentile categories would you say your family's annual income falls under, when compared to the rest of the US?  <input type="radio"/> below 25%  <input type="radio"/> 25%–49%  <input type="radio"/> 50%–75%  <input type="radio"/> above 75%</p> <p style="text-align: right;">OK</p>	<p><b>Academic Information</b></p> <p>What year in college are you?  <input type="radio"/> Freshman  <input type="radio"/> sophomore  <input type="radio"/> junior  <input type="radio"/> senior  <input type="radio"/> graduate student  <input type="radio"/> other</p> <p>What is your major? If undecided, what majors are you considering?  <input type="text"/></p> <p>Have you ever heard of "Game Theory"?  <input type="radio"/> yes  <input type="radio"/> no</p> <p>If so, what was the source, and to what extent do you know about game theory?  <input type="text"/></p> <p>Have you ever seen/heard of a situation similar to the one described in the current experiment?  <input type="radio"/> yes  <input type="radio"/> no</p> <p>If so, from where?  <input type="text"/></p> <p style="text-align: right;">OK</p>
<p><b>Behavioral Information</b></p> <p>Have you ever purchased a lottery ticket before?  <input type="radio"/> yes  <input type="radio"/> no</p> <p>If yes, how often do you purchase lottery tickets?  <input type="radio"/> never  <input type="radio"/> 2-3 times a month  <input type="radio"/> monthly  <input type="radio"/> 3-5 times a year  <input type="radio"/> less than 3 times a year  <input type="radio"/> never</p> <p>Do you have a favorite type of lottery and/or a set strategy for that lottery?  <input type="text"/></p> <p style="text-align: right;">OK</p>	<p><b>Experimental Information</b></p> <p>Please write down briefly why you picked the numbers you picked.  <input type="text"/></p> <p>Please write down briefly how you think other participants are choosing their numbers.  <input type="text"/></p> <p>Sometimes in this experiment, subjects would choose very high numbers, even in the second half of the experiment. If you did this, please explain why.  <input type="text"/></p> <p style="text-align: right;">OK</p>

**Figure A14. Screenshots of questionnaire in the laboratory experiment**

**Please answer the following questions:**

1) A bat and a ball cost \$1.10 in total. The bat costs \$1 more than the ball.  
How much does the ball cost?

2) If it takes five machines five minutes to make five widgets, how long would it take 100 machines to make 100 widgets?

3) In a lake, there is a patch of lily pads. Every day, the patch doubles in size. If it takes 48 days for the patch to cover the entire lake, how long would it take for the patch to cover half the lake?

OK

**Figure A15. Screenshot of CRT in the laboratory experiment**