Selling 'Money' on EBay: a Field Study of Surplus Division

Alia Gizatulina

Olga Gorelkina

Follow this and additional works at: https://elischolar.library.yale.edu/cowles-discussion-paper-series

Part of the Economics Commons

Recommended Citation
https://elischolar.library.yale.edu/cowles-discussion-paper-series/174

This Discussion Paper is brought to you for free and open access by the Cowles Foundation at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in Cowles Foundation Discussion Papers by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.
SELLING "MONEY" ON EBAY:
A FIELD STUDY OF SURPLUS DIVISION

By

Alia Gizatulina and Olga Gorelkina

August 2017

COWLES FOUNDATION DISCUSSION PAPER NO. 2104

COWLES FOUNDATION FOR RESEARCH IN ECONOMICS
YALE UNIVERSITY
Box 208281
New Haven, Connecticut 06520-8281

http://cowles.yale.edu/
SELLING "MONEY" ON eBay: A FIELD STUDY OF SURPLUS DIVISION *

Alia Gizatulina† and Olga Gorelkina‡

August 11, 2017

Abstract

We study the division of trade surplus in a natural field experiment on German eBay. Acting as a seller, we offer Amazon gift cards with face values of up to 500 Euro. A random selection of buyers, the subjects of our experiment, make price offers according to the rules of eBay. Using a novel decomposition method, we infer the offered shares of trade surplus from the data and find that the average share proposed to the seller amounts to about 30%. Additionally, we document: (i) insignificant effects of stake size; (ii) poor use of strategically relevant public information; and (iii) differences between East and West German subjects.

Keywords: Field experiment, surplus division, bargaining, Internet trade, eBay.
JEL codes: C72, C93, C57.

1 Introduction

Bilateral trade is at the core of economics. Trade occurs if it generates some surplus, that is, if a buyer is willing to pay more than what a seller is willing to accept. When the buyer and the seller bargain about the price, they bargain about the division of trade surplus.

Bargaining over the surplus division has been extensively studied in the literature, both empirically and theoretically. Theoretical studies of bargaining take two approaches. The first is the axiomatic approach, which was put forth by John Nash who looks at bargaining outcomes that satisfy a set of desirable axioms. The second is the strategic approach, which

---

*We are grateful to Anna Petukhova for excellent research assistance. Further acknowledgements to be added.
†University of St. Gallen and Max Planck Institute for Research on Collective Goods; alia.gizatulina@unisg.ch
‡University of Liverpool Management School, Chatham Street, Liverpool L69 7ZH, UK; olga@liv.ac.uk

1The central axiomatic notions are the Nash bargaining solution, the Kalai-Smorodinski solution and the Egalitarian solution. See, e.g., Thomson (1994). When two parties bargain over money and their utilities are linear, all three solutions imply the same outcome: the equal division of surplus.
focusses on equilibrium outcomes of the bargaining games. The simplest bargaining game involves two players and one take-it-or-leave-it offer of one player to the second one (Güth et al., 1982). In a more complex game, players can exchange offers over several rounds, including the extreme case of an infinite-horizon bargaining game (Rubinstein, 1982). Shifting from a one-round bargaining game to an infinite-horizon model leads to a drastic increase in the first mover’s offer to the second player (Selten, 1965).  

On the empirical side, several studies have tested the ultimatum game in the lab environment. The main surprising finding in the literature is that a large proportion of opening offers deviate from the unique subgame-perfect equilibrium of the ultimatum game, where the first mover takes the entire pie for himself. Instead, the observed opening offers are rather consistent with an infinitely repeated bargaining-game and with axiomatic solutions, where in each case both sides get a positive share of surplus. However, given the general critique that is usually applied to laboratory studies, see e.g. Levitt and List (2007), the question is yet whether a non-trivial division of surplus observed in the lab is also observed in real life bargaining situations.

The goal of our paper is to study bargaining outcomes in a natural field setting. In particular, we are interested in the share of surplus that the proposing party gives to the receiving party during the first stage of a bargaining game with at most three rounds. To conduct our experiment, we went to the online trading platform eBay.de and used the existing bargaining mechanism that is known as the "Buy-it-now or Best offer" selling format. Mimicking the typical eBay sellers of gift cards, we collected from buyers their price offers for Amazon gift cards of different nominal values. The buyers made their offers privately (without observing others’ buyers offers). We were the second movers and buyers expected that we would either accept the offer, reject it, make a counter-offer or not react at all. If a buyer succeeds to buy the card, he would typically credit its nominal value to his Amazon account and use it for purchasing anything available on Amazon. Hence, by knowing the face values of Amazon gift cards, we have control over the variable which is typically unobserved, namely, the buyer’s valuation.

On the other side of trade surplus is the seller’s outside option. From the viewpoint of any buyer, trade surplus is the difference between his valuation and the seller’s opportunity cost. The seller’s opportunity cost is defined by the possibility to trade with other buyers or to use the card eventually on his own. Obviously, for the market of gift cards to exist, sellers’ own valuation of the card must be less than the nominal value of the card.

---

2 See also Binmore et al. (2007) and references therein.
3 This trading format should not to be confused with eBay’s second-price ascending auction, where the seller set the starting price and bidders bid over a pre-defined period of time.
4 Obviously, for the market of gift cards to exist, sellers’ own valuation of the card must be less than the nominal value of the card.
estimate of the seller’s outside option, he offers a non-zero share of trade surplus.

If the buyers’ estimates of the seller’s outside option were observable to us, solving for the share of surplus that each buyer offers to the seller would be a trivial task. Obviously, we do not observe those estimates. As the result, to identify the share of surplus that a given buyer offers to the seller we have to infer the buyer’s belief about the seller’s opportunity cost.

We developed a new statistical method to use our own data to infer the subjects’ beliefs. In our model those beliefs could be any, i.e., we do not impose the requirements of consistency with the publicly observed data or any kind of rationality or a common prior. As each observed offer is a non-degenerate function of two variables, it is not feasible to decompose the offers at the level of individual observations. However, under our model’s assumptions, which we discuss below, we can implement an aggregate decomposition program, where the observed distribution of offers is decomposed into a distribution of shares of surplus and a distribution of the buyers’ beliefs about the seller’s expected opportunity cost.

In our setting, to decompose the observed distribution of normalized offers in two underlying unobserved distributions we have to solve an integral equation with two unknown functions. This problem is infinite-dimensional and computationally hard. To obtain a feasible program, we first reduce the dimensionality. For this, in line with the standard approximation theory, we restrict the set of possible distributions to be a family of finite polynomials. Our search for fitting distribution starts with the uniform law as a candidate solution for both functions. We consecutively raise the polynomial degree until the optimal solution passes a pre-specified goodness-of-fit test. To check the robustness of the main method’s findings, we also apply two further estimation methods, including a non-parametric one.

Our key finding is the following distribution of shares of surplus that buyers offer to the seller:

<table>
<thead>
<tr>
<th>Share of surplus:</th>
<th>0-10%</th>
<th>10-20%</th>
<th>20-30%</th>
<th>30-40%</th>
<th>40-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of subjects offering the share:</td>
<td>33.2</td>
<td>3.7</td>
<td>3.6</td>
<td>16.6</td>
<td>43.0</td>
</tr>
</tbody>
</table>

*Table 1: Estimated distribution of surplus shares offered by eBay users.*

By the very nature of our estimation method, this distribution of shares is free from any effects of competition among buyers or any other origins of buyers’ beliefs about the seller’s outside option. Hence, it can be compared to the findings from experiments on a one-shot bilateral bargaining model, i.e., the ultimatum game.

As one can see, approximately 43% of subjects offer 40-50 % of trade surplus to the counter-party. This implies that even in a large anonymous market like eBay, equal splitting
of the total trade surplus is rather usual. Whether the equal split is due to social preferences, cultural norms, its salience, simplicity, or the axiomatic properties of the egalitarian solution, our results imply that its occurrence in the field is similar to that in the lab. On the other side, about one third of all subjects have behaviour consistent with the maximization of individual monetary payoffs, offering no more than 10% of the trade surplus. The average share offered is 29.4%, which falls within the range of estimates typically obtained in lab experiments of the ultimatum game (e.g., Oosterbeek et al., 2004).

Our estimation technique rests on three assumptions. First, the card is worth its nominal value to any buyer who makes a sizeable offer in the experiment. The money on the Amazon account, can indeed be split, stored, combined with other payment methods and used for purchasing goods from both Amazon and third-party sellers that operate on the platform. To an Amazon customer, the money on his Amazon account is thus no different from the money on a credit card. If, however, the cards are worth less than their nominal value to some buyers then our results imply that the sharing is even more generous than our estimates suggest. More precisely, the estimated distribution is first-order stochastically dominated by the true one. In that sense, we have obtained a lower bound on the sharing intentions (see also Section 5.1). Moreover, we do not need to assume that the subjects who make extremely low offers fully appreciate the card’s value.

Second, we assume buyers’ risk-neutrality. In the lab studies of bargaining, this assumption is standard. Moreover, our data suggests that the subjects are risk-neutral within the relevant range of payoffs. This is shown by contradiction. If the subjects were risk-averse in this range, we would have observed that the distribution of offers changed as we increased the stake. This, however, is not the case in our data (see Section 5.2).

The third assumption postulates that subjects’ beliefs and sharing intentions are statistically independent. This follows from the predominant economic approach to rationality, which implies maximization of utility given subjective beliefs. Fundamentally, utility formalizes preferences over allocations and the belief function reflects the knowledge about the game. We similarly regard sharing intentions as an expression of subjects’ preferences while their beliefs are formed through their information and individual experiences from the game.

Regardless of all of the above assumptions we obtained a number of further results from the regression analysis. First, as noted above, we find that the observed distributions of normalized offers do not vary with the amount of money at stake. Second, we find that observed buyer behaviour is insensitive to public information about the degree of competition,

---

5On the other hand, the gift cards are not worth their face value to those selling them, or generally non-customers of Amazon. eBay customer protection service guarantees that the buyer gets all goods as described; seller fraud is therefore not a determinant of the card’s value.

6A normalized offer is a price offer divided by the card’s face value. For example, the value of a normalized offer that corresponds to 40 Euro for a 50-Euro gift card is 0.8.
as well as to the public history of sellers’ responses to price offers. Third, we use data on buyers’ postal codes to classify the subjects in two regions, East and West Germany. While both groups of offers tend to cluster at 50% of the card’s value, the “naïve equal split” is more prevalent among subjects in East Germany.\(^7\) Thereby, West German subjects are more likely to make competitive offers, that is, to be consistent with the theoretical prediction of a model with multiple buyers.

The present study is the first bargaining experiment to include a non-standard (non-student) subject pool and to feature a field context in which the subjects undertake the task naturally. Moreover, the subjects did not know that they were participating in an experiment.\(^8\) Therefore, our experiment is a natural field experiment, according to the definition of Harrison and List (2004).

The next section describes the experiment and its data. The decomposition strategy and its results are presented in Section 3; robustness checks are described in Appendix A.4. Section 4 reports on the regression analysis. Section 5 discusses the assumptions and the related literature. Section 6 concludes.

2 Experiment

2.1 Amazon Gift Cards

We set up a controlled environment within an existing secondary market for Amazon gift cards on the German site of eBay (www.ebay.de). Amazon gift cards are used primarily as presents.\(^9\) Typically, the gift giver would go to the Amazon website, pay \(V\) Euros to get a sixteen-digit code, and transmit the code to the gift receiver. Subsequently, the receiver logs in to his Amazon account, enters the code and gets \(V\) Euros credited to his account. The account credit can be used for purchasing any goods offered on the Amazon website,\(^10\) it can be split, combined with other payment methods and stored for up to three years.

If the gift card owner does not intend to use the code, he puts it up for sale in a secondary market. Upon purchase, the code is transmitted in a secure message. In Germany, reselling Amazon gift cards on eBay is very common. For instance, 87 gift cards were on sale at 7 p.m. on June 13, 2014, and 1962 sales in total were posted within 114 days prior to that date.

---

\(^7\)A 50% offer can be viewed as an equal split of trade surplus only under a “naïve” assumption that the seller’s outside option is 0.

\(^8\)The fact that we work with unaware eBay users is the distinction of our setup from Bolton and Ockenfels (2014).

\(^9\)Other uses include: reward for participation in internet surveys, including lottery prices, payment for consumer-to-consumer online purchases, bonus to third-party promotions.

\(^10\)The goods can be bought from Amazon.com, Inc. / Amazon EU S.a.r.l. as well as any other seller, private or institutional, that uses Amazon as platform.
Nominal values of gift cards ranged from 5 to 2500 Euro. The market turnover in Q4 2015 is estimated at 70 000 Euro.

2.2 The "Buy-it-now or Best Offer" format on Ebay

In the experiment, we employ the Buy-it-Now or Best Offer (BINBO) format of eBay, Sofortverkauf oder Preisvorschlag in German. The BINBO sales format is an alternative to the better-known eBay auction, which is an English auction where the bidders openly compete with each other.

The rules of BINBO are as follows. Initially, the seller posts an ask price and invites the buyers to either pay the ask price or make their own price offer. When a buyer makes an offer, the seller has forty-eight hours (or less, if the listing expires earlier) to accept, reject, or make a counter-offer. When a price offer is accepted, the card is sold and the game ends. A listing becomes inactive if it expires or if the card is sold to a buyer. EBay users can browse the history of inactive listings.

The BINBO game is illustrated in Figure 1. The card value is normalized to 1. The buyer’s offer is denoted \( b_i \), where \( i \) refers to a buyer-seller pair. When \( b_i \) is below the ask price, the seller accepts or rejects; no reply is strategically equivalent to a rejection. If the seller accepts he gets \( b_i \), if he rejects he saves the opportunity cost of trade \( c_i \). The seller’s cost of trade \( c_i \) is due to the opportunity to trade with other buyers and the card’s usage value to the seller. The buyer gets \( 1 - b_i \) in case of acceptance and zero in case of rejection. If the buyer accepts the seller’s ask price, \( b_i \) equals the ask price and the seller is bound to accept, i.e., to transfer the card code. When an offer \( b_i \) is accepted, the surplus \( 1 - c_i \) is effectively split between the buyer who gets \( 1 - b_i \) and the seller who "gets" \( b_i - c_i \). Note that Figure 1 omits the possibility of counter-offers; their role is discussed in Section 5.4.

\[ \text{Figure 1: BINBO.} \]

\[ \text{Figure 1: BINBO.} \]

\[ \text{Figure 1: BINBO.} \]

---

\(^{11}\)One may wonder that such expensive goods could be sold anonymously over the Internet. This is due, to a large extent, to efficient consumer protection services offered by eBay, as well as the importance of reputation (see Resnick et al. (2006)). Note also that Germany ranks high on the level of trust between strangers (see Fukuyama (1995)). On the relation between culture and e-commerce diffusion see Gibbs et al. (2003).
When an eBay user makes a price offer he becomes a subject of our study. The subject (buyer) observes the posted price and the following information. First, he can observe the total number of offers received by the seller: 0, 1, 2, etc., the timing and the status of each offer: pending, rejected, counter-offer received. Second, the buyer observes the number of minutes left before the listing expires, the seller’s feedback score, and the other items the seller currently offers for sale. The buyers can also observe the history of previously offered items of this seller. The most immediate information about the seller’s history is the list of all feedback entries (positive, negative, neutral) that are left to the seller for the items that he has sold.

Importantly, only the seller can see how much money is being offered. The buyers can only observe how many competitors are present, if at all.\textsuperscript{12} Naturally, no-one observes how many competitors there will have arrived until the listing expires, as that information pertains to the future.

\subsection*{2.3 Listings}

We offer Amazon gift cards with a range of face values: 5, 10, 20, 50, 100, 200, and 500 Euro, i.e., in total seven treatments. In two waves of the experiment, March to July 2014 and March 2015, we posted over 200 listings. Each listing lasts three days, the lowest possible duration on eBay. We used five different seller accounts with feedback scores ranging from no feedback and no tenure to 430 stars and 10 years tenure. Each seller account listed one or two gift cards at a time, and the nominal values of the gift cards rotated between seller accounts over the entire duration of the experiment.

The text of the announcement and the video illustration URL are given in Appendix A.1.

We drafted the listings in a way that mimics the common practice of the gift card sales via the BINBO format. Relying on the history of similar posts, we used typical wording and set the initial ask prices above the nominal value of the gift card\textsuperscript{13}. On top of replicating the common practice, the excessive ask price allowed us to limit the number of actually executed transactions: rational buyers should not accept to pay more than the card’s nominal value. To our surprise, the excessive ask price was accepted on a few occasions. The explanation of overbidding is the focus of Malmendier and Lee (2011). As for this paper, we concentrate on offers that do not imply a loss. Finally, to unify the sellers’ response to offers, we let all offers to expire without any our response.

\textsuperscript{12}Similarly, in Camerer (2003) and Roth et al. (1991), the proposers do not observe their competitors’ offers.

\textsuperscript{13}E.g., we set the ask price of a 100 Euro gift card equal to 119 Euros.
2.4 An Illustration

As an illustration, consider one round of the experiment. We list a gift card with the nominal value of 100 Euro on June 1 at 1:08 p.m. We receive the first offer of 90 Euro from the buyer having the user name “lu..er” and who has 6 eBay feedbacks as of June 3 10:16 a.m. and the second offer of 80 Euros from the buyer “xx...30” with 60 feedbacks at 1:23 p.m.

At the moment “lu..er” placed his offer, he could observe that there were no offers outstanding. In contrast, the second buyer “xx...30” could see that he was facing competition from one other buyer.

We let both offers expire on June 4 at 1:08 p.m. This generated two observations. The data collected per observation include the offered amount, the exact timing and order of the offer, the buyer characteristics (eBay alias, feedback score and registered postal code), as well as the seller’s information and the exact time the listing was posted. We also keep track of the announcements that did not receive any offers.

2.5 Data

72 percent of the listings receive at least one offer within the three-day period. The number of offers per listing ranges from 0 to 15, with 1.6 offers made on average. One offer per listing is both the median and the most frequent number of offers, and corresponds to the situation of bilateral trade.

The subjects come from all over the country, 15 percent of the offers originate in East Germany (former German Democratic Republic). The most experienced buyer in the sample was registered on eBay 16 years prior to our experiment. On average, buyers had 8.5 years of eBay experience.

The distribution of the arrival times of price offers within the duration of sale is plotted in Figure 2. The diagonal corresponds to the uniform distribution. The times are normalized to one according to the formula \( \frac{t_{offer} - t_{listing}}{3 \times 24 \times 60} \), where \( t \) is expressed in minutes. Contrary to the case of eBay’s ascending auction, where the bidding frequencies spike at the

---

14Five offers from Austria were not included in either East- or West-German group.
end of sale (see, e.g., Roth and Ockenfels (2002)), we do not observe any such patterns in
the arrival rates in the BINBO format we use in the experiment. This is not surprising since
waiting to place an offer is not profitable in a BINBO sale.

<table>
<thead>
<tr>
<th>Voucher Value</th>
<th>All</th>
<th>5 €</th>
<th>10 €</th>
<th>20 €</th>
<th>50 €</th>
<th>100 €</th>
<th>200 €</th>
<th>500 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Listings</td>
<td>221</td>
<td>46</td>
<td>25</td>
<td>19</td>
<td>22</td>
<td>36</td>
<td>43</td>
<td>30</td>
</tr>
<tr>
<td>No. of Offers</td>
<td>358</td>
<td>42</td>
<td>45</td>
<td>38</td>
<td>57</td>
<td>60</td>
<td>74</td>
<td>43</td>
</tr>
<tr>
<td>Average Bid</td>
<td>0.73</td>
<td>0.71</td>
<td>0.77</td>
<td>0.73</td>
<td>0.77</td>
<td>0.70</td>
<td>0.72</td>
<td>0.71</td>
</tr>
<tr>
<td>Std. Err.</td>
<td>0.04</td>
<td>0.11</td>
<td>0.11</td>
<td>0.12</td>
<td>0.10</td>
<td>0.09</td>
<td>0.08</td>
<td>0.11</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.23</td>
<td>0.23</td>
<td>0.18</td>
<td>0.17</td>
<td>0.17</td>
<td>0.27</td>
<td>0.23</td>
<td>0.29</td>
</tr>
<tr>
<td>Median</td>
<td>0.80</td>
<td>0.80</td>
<td>0.80</td>
<td>0.75</td>
<td>0.80</td>
<td>0.80</td>
<td>0.79</td>
<td>0.82</td>
</tr>
</tbody>
</table>

Table 2: Descriptive statistics of normalized offers $b_i = B_i / V_i$, "Offer / Nominal Value".

The offers in our sample range from 1 Euro, the lowest admissible offer on eBay, to the
nominal value of the gift card. To make the data comparable across treatments, we normalize
the offers by dividing each offer by the nominal value of the gift card. The pooled data
display clustering: the normalized offers concentrate around 0, 50, 80, and 90 percent of the
gift card value (see Figure 4).

The descriptive statistics, broken down with respect to nominal value treatments, are
reported in Table 2. Overall, the distribution of offers is right-skewed: every second offer
exceeds 80 percent of the nominal value. The average offer in our sample ranges from 71 to
77 percent of the nominal value and does not display monotonicity with respect to the gift
card’s nominal value. The same is true of median values that range from 75 to 82 percent of
the nominal value.

Figure 3 presents the data, where the logarithm of the nominal card value is plot-
ted against the horizontal axis and the normalized offer is the dependent variable on
the vertical axis. We use the one-way
ANOVA to test whether the empirical av-
erages vary across the nominal value treat-
ments. We find the null hypothesis of equal
means is not rejected,\(^{15}\) implying the nor-
malized offers’ invariance in scale. Pair-
wise linear and log-linear regressions yield
a similar finding: the nominal value does
not have a statistically significant effect on
the normalized price offers (see Table 5).Overall, our analysis indicates that stake size does

\(^{15}\)ANOVA $P$-value = 0.50.
not affect the normalized offers in the population of eBay buyers. Similar findings were obtained in the lab settings by Cameron (1999), Munier and Zaharia (2002), Hoffman et al. (1996), Slonim and Roth (1998).\textsuperscript{16}

3 Decomposition of Offers

In this section we study the sharing intentions behind the subjects’ offers in the experiment. Figure 4 is a histogram that presents the data pooled across value treatments.

![Figure 4: Empirical frequency $h(b_i)$ of normalized offers $b_i = B_i/V_i$. The relative offers $b_i$ are grouped into five-percent bins and plotted against the horizontal axis. The bins include the upper bound of the interval, for instance, the last bin corresponds to $b_i \in (0.95, 1]$.

The experimental data displays substantial heterogeneity and irregular clustering: in particular, we observe clusters at around 0, 50 and between 80-90 percent of the card’s nominal value. An offer of 50%, where we observe a spike in frequency, would correspond to an equal splitting of surplus, if the seller’s outside option (cost) was zero. Similarly, the seller could only accept an offer close to zero, if zero was his cost. In reality the seller’s cost of trade is different from zero; this also appears to be the belief of the majority of subjects, who offer the seller 80% of the card’s value or more.

\textsuperscript{16}A meta-study by Oosterbeek et al. (2004) documents a small negative effect of increasing stake size. Slonim and Roth (1998) and Roth and Erev (1995) find a positive effect when the game is played in the first round or only played once.
Overall, the observed pattern of offers points at stark heterogeneity in the subjects’ perceptions of the game and (or) their intentions when playing it. Therefore, our treatment of the data does not impose any structure on the subjects’ beliefs about the seller’s outside option, in particular, we do not assume a common prior.

### 3.1 The Decomposition Problem (DP)

Our model allows for subject heterogeneity across two dimensions: the perceptions of the seller’s outside option (seller’s cost) and the sharing motives. The perception of the seller’s cost \(c\) is subject to uncertainty of the number of competing bids and of their sizes, as well as the seller’s own usage value of the card, if any. In our model, the buyer’s perceptions of \(c\) are captured by a distribution function \(\Phi_i(c)\) that we refer to as the buyer \(i\)’s belief over \(c\).\(^{17}\) The buyers’ beliefs are thus the first source of offers heterogeneity.

The second source of the observed subject heterogeneity is the sharing motive, or the fraction of surplus that a subject offers in excess of the seller’s cost. Consider first a fixed seller cost \(c\). The surplus from trade is given by \(1 - c\), the difference between the buyer’s value and the seller’s cost. In the game of bargaining over the surplus \(1 - c\) the buyer’s price offer implies how the surplus is split. Buyer \(i\)’s price offer \(b_i\) leaves the seller with a share \(s_i\) of surplus: \(s_i = \frac{b_i - c}{1 - c}\), where \(c\) is the seller’s true cost. For a fixed \(c\), the price offer \(b_i(c)\) is therefore given by

\[
    b_i(c) = c + s_i (1 - c). \tag{1}
\]

However, since \(c\) is uncertain, the offer is

\[
    b_i = \int b_i(c) d\Phi_i(c) = \int [c + s_i (1 - c)] d\Phi_i(c)
    = c_i + s_i (1 - c_i), \tag{2}
\]

where \(c_i \equiv \int c d\Phi_i(c)\). The observed offer \(b_i\) is the solution of the bargaining problem in buyer \(i\)’s subjective expectation over the seller’s cost \(c\). Note that (2) implies that the first moment \(c_i\) of \(\Phi_i(c)\) is sufficient information to calculate the buyer’s offer when \(s_i\) is known.

Equation (2) summarizes two sources of variation in offers that we observe. First, the subjects vary in the normalized shares \(s_i\) they are willing to offer to the seller. Second, they differ in their expectations \(c_i\) of the seller’s opportunity cost \(c\). To understand the prevalence of sharing rules in the data, we have to extract \(s_i\) from the observed normalized offers \(b_i\).

\(^{17}\)Formally, \(c = \max\left\{u_s, \max\left\{b_j : j \in J\right\}\right\}\) where \(u_s\) is the seller’s own usage value, and \(J\) is the set of competitors, \(b_j\) is the bid of competitor \(j\).
Clearly $c_i$ and $s_i$ cannot be identified from an observed offer $b_i$. Since the observed offer is a function of two unknowns, decomposing $b_i$ is infeasible at the level of individual observations. However, one can implement an aggregate decomposition of the observed distribution of normalized offers into a distribution of shares $s_i$ and a distribution of the first moments of the belief functions $c_i$. The aggregate decomposition implies splitting of the observed distribution into a distribution of shares $s_i$ and a distribution of subjective expectations (first moments of the belief functions) $c_i$. The aggregate decomposition is a novel statistical approach to analyze partially controlled experiments. We drop the subscript $i$ in what follows.

To formally specify the Decomposition Problem (DP), we let $f(s)$ and $g(c)$ denote, respectively, the unobserved distributions of the shares $s$ and of the cost expectations (belief first moments) $c$. Let $h(b)$ be the observed distribution of offers. Capitals $F$, $G$, and $H$ denote the corresponding cumulative distribution functions. For simplicity we think of all three distributions as having continuous supports. We assume that the $\text{supp}(g) = [0,1], \text{supp}(f) = [0,0.5]$, where the 0.5 bound follows from the standard other-regarding preference theories.\footnote{See, e.g., Fehr and Schmidt (1999) [Proposition 1], Ockenfels and Bolton (2000) [Statement 3].}

We demonstrate the robustness of the results by relaxing this bound in the Appendix Table 15. Note that “selfish” offers (maximizing individual payoffs given subjective beliefs) correspond to $s_i = 0$ for all $i$ and are therefore allowed in this specification.

Assuming that offered shares and cost expectations are distributed independently in the population, the distributions are related through the following equations:

$$H(b) = \Pr(c + s(1 - c) < b) = \Pr(c < b, s < \frac{b - c}{1 - c})$$

$$= \int_0^b \left[ \int_0^{\frac{b - c}{1 - c}} f(s) \, ds \right] g(c) \, dc = \int_0^b F\left(\frac{b - c}{1 - c}\right) g(c) \, dc. \quad (3)$$

The cumulative distribution function $H$ on the left-hand side is given by the observations in our experiment. The right-hand side integrates over all $c$ and $s$ that generate an offer less or equal to $b$, according to (2). The essence of the decomposition problem (DP) is to find $f(s)$ and $g(c)$ that best fit equation (3) given $H(b)$ constructed from the experimental data.

### 3.2 Computational Issues and Uniqueness

Decomposing the observed distribution of normalized offers into two underlying unobserved distributions is equivalent to solving an integral equation with two unknown functions. As both $f(.)$ and $g(.)$ belong each to an infinite-dimensional space, the DP (3) is infinite-dimensional and, therefore, computationally hard. Finding a solution calls for a

\begin{thebibliography}{10}
\end{thebibliography}
reduction in the problem’s dimensionality to a point where optimization becomes computationally feasible. What complicates the analysis further is that while the solution to (3) exists it may not be unique unless the space of functions \( f(.) \) and \( g(.) \) is restricted.\(^{19}\)

Our approach to solving the DP (3) addresses both issues, the dimensionality reduction and uniqueness. We run three alternative optimization programs to cross-check the findings. Two programs are parametric; dimensionality reduction is achieved by restricting the solution to a space of parametric functions. The first, baseline program is reported in the next section 3.3. It relies on the standard approximation theory and looks for a solution in the space of polynomials. The second program, reported in the Appendix A.4.1 is non-parametric. The dimensionality of the DP (3) is reduced by discretizing the supports of \( f \) and \( g \). Finally, in the Appendix A.4.2 we restrict \( f \) and \( g \) to the class of beta functions, which permits a global search for four parameter estimates (two for each distribution). All three programs yield similar results, however the beta approximation is rejected by the goodness-of-fit test.

In the following section we focus on the polynomial program and report its results in Table 3.

3.3 Polynomial Approximation

Our baseline program achieves the reduction of dimensionality by restricting the solution to a set of continuous functions, in particular, to a space of parametric functions. Following the standard approximation theory, the space of finite polynomials is the best choice within a parametric class.\(^{20}\) Hence, our goal is to identify a polynomial approximation of \( H \). Consequently, we treat both \( f \) and \( g \) as linear combinations of Chebyshev polynomials:

\[
\begin{align*}
    f_n(s; \gamma) &= \sum_{k=0}^{n} \gamma_k T_k(s), \quad 0 \leq s \leq 0.5, \\
    g_m(c; \delta) &= \sum_{i=0}^{m} \delta_i T_k(c), \quad 0 \leq c \leq 1,
\end{align*}
\]

where \( T_k(x) \) is a \( k \)-degree Chebyshev polynomial of the first kind.

\(^{19}\)There always exists a trivial corner solution, where \( h \equiv g \) and \( f \) is a Dirac delta function with the entire probability mass concentrated at zero. Sadovnichy (1986) shows that, for a given kernel function \( F(b,c) \), a Volterra integral equation such as (3) is a contraction mapping and hence has a unique solution \( g^* \). Since both \( f \) and \( g \) are restricted to the class of probability measures, Sadovnichy’s result does not imply that one can generate multiple solutions by simply varying the kernel function.

\(^{20}\)By the Stone-Weierstrass theorem, the subset of polynomials is dense in \( C[a,b] \) which means that any continuous function on a bounded interval can be approximated arbitrarily well by a sufficiently large degree polynomial.
The iterative procedure starts at \( n = m = 0 \). That is, the initial candidate solution for \( \hat{f}^p = f_0 \) and \( \hat{g}^p = g_0 \) is a pair of zero-degree polynomials, which corresponds to two uniform distributions. Subsequently, we raise the polynomial degree until the optimal solution within the respective class passes a goodness-of-fit test.

More specifically, at each iteration we search for the vector of parameters \((\gamma, \delta)\) that minimizes the Kolmogorov-Smirnov distance between \( \hat{H} \) and \( H \)

\[
(\gamma^*, \delta^*) = \arg \min_{(\gamma, \delta)} d_{KS}(H_{nm}(\cdot; \gamma, \delta), H(\cdot)) \tag{6}
\]

subject to \( \int_{-\infty}^{0} f_n(s;\gamma) \, ds = 0, \quad \int_{0}^{+\infty} f_n(s;\gamma) = 0, \quad f_n(s;\gamma) \geq 0; \quad \int_{-\infty}^{0} g_n(c;\delta) \, dc = 0, \quad \int_{1}^{+\infty} g_n(c;\delta) \, dc = 0, \quad g_n(c;\delta) \geq 0, \) where the Kolmogorov-Smirnov distance is

\[
d_{KS}(\hat{H}(\cdot), H(\cdot)) = \sup_{b \in [0,1]} \left| \hat{H}(b) - H(b) \right|, \tag{7}
\]

and \( H_{nm} \) is a composition of

\[
H_{nm}(b; \gamma, \delta) = \int_{0}^{b} \prod_{0}^{b} \int_{0}^{b} f_n(s;\gamma) g_m(c;\delta) \, dsdc. \tag{8}
\]

Once we find the best approximations \((f_n(\cdot; \gamma_n^*), g_m(\cdot; \delta_m^*))\) for fixed polynomial degrees \( n \) and \( m \), we take the respective composition \( \hat{H}(\cdot; \gamma_n^*, \delta_m^*) \), and compare it to the observed cumulative distribution \( H(\cdot) \). We dismiss the solution if the respective Kolmogorov-Smirnov distance between \( \hat{H}(\cdot; \gamma, \delta) \) and \( H(\cdot) \) exceeds the bootstrapped critical value and proceed to the next iteration allowing for an extra polynomial term.\(^{21}\)

At \( n = 3, \) \( m = 4 \) the hypothesis that \( \hat{H} = H \) is no longer rejected. In other words \( \hat{H}(\cdot) \) is statistically indistinguishable from the empirical \( H(\cdot) \). To avoid overfitting we terminate the procedure at this iteration and adopt the respective solution \((\hat{f}^p(\cdot), \hat{g}^p(\cdot)) = (f_3(\cdot; \gamma_3^*), g_4(\cdot; \delta_4^*))\).

As a robustness check, the procedure was reiterated with higher polynomial degrees up to ten; this did not improve the distance significantly and each subsequent solution was qualitatively similar to \((\hat{f}^p(\cdot), \hat{g}^p(\cdot))\). In summary, the estimated \((\hat{f}^p(\cdot), \hat{g}^p(\cdot))\) is stable, data-consistent, and uniquely optimal polynomial approximation.

**Remark** We used Mathematica’s differential evolution fitting method, allowing for 500 iterations at each round of search. The advantage of the differential evolution method is that it consistent at finding the global solution. The search procedure requires that a continuous version of \( H \) is generated. To that end, we derive a non-parametric kernel density function from the data, setting the bandwidth

\(^{21}\)Bootstrap critical values corresponding to 358 observations are 0.049 for significance at 10%, 0.057 for significance at 5%, and 0.071 for significance at 1%.
at 0.015. This value allows for the used $H$ to be sufficiently continuous while still preserving the information contained in the empirically observed version of $H$.

### 3.4 Results of Polynomial Decomposition

The estimated distributions are presented in Table 3. (The corresponding Chebyshev coefficient estimates are given in the Appendix, Table 11.) The estimate of the distribution of sharing rules $f$ implies that 43 – 44% of the subjects offer 40 to 50% of the trade surplus to the seller. One third of all our subjects make "greedy" offers and propose no more than 10% of the trade surplus to the seller. The remaining 25 – 30% of the subjects make offers between 10 and 40%. The average offer to the seller amounts to 29.4% of the respective trade surplus.

<table>
<thead>
<tr>
<th>$s$:</th>
<th>0-10%</th>
<th>10-20%</th>
<th>20-30%</th>
<th>30-40%</th>
<th>40-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\hat{f}^p(s)$:</td>
<td>33.2</td>
<td>3.7</td>
<td>3.6</td>
<td>16.6</td>
<td>43.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$c$:</th>
<th>0-10%</th>
<th>10-50%</th>
<th>50-60%</th>
<th>60-70%</th>
<th>70-80%</th>
<th>80-90%</th>
<th>90-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\hat{g}^p(c)$:</td>
<td>11.2</td>
<td>10.1</td>
<td>11.8</td>
<td>17.7</td>
<td>21.1</td>
<td>19.2</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Table 3: Estimated distributions of sharing rules $\hat{f}^p(s)$ and cost expectations $\hat{g}^p(c)$ in the population of eBay buyers (in percentage points). $d_{KS} = 0.028$.

The estimated $g(.)$ evokes of a mixture of two distributions. (See also Figure 5 that reports the quantitatively similar non-parametric estimates.) This suggests that there are two types of beliefs that prevail in the population of bidders. There is a fraction of "naïve" subjects, estimated at 11 – 14%, who make their offers under the assumption that the seller’s outside option (cost) is null. The first moments of the beliefs of the remaining "sophisticated" majority of the subjects are described by a bell curve centered around the observed average offer of 73%. This suggests a certain "crowd wisdom" manifests itself in the eBay market of Amazon gift cards – the expectations of seller’s cost are correct, on average, in the "sophisticated" group of subjects, even though there is noise around the value.

### 3.5 Robustness Checks

To verify whether the decomposition we found is robust, we have conducted further decompositions, using two alternative approaches. One approach, reported in Appendix (A.4.1), is to discretize the support of distributions $h$, $f$, and $g$, in order to obtain a finite-dimensional problem. Namely, we partition the support of the three distributions into equal-sized bins. Given the upper limit on the support of sharing rules of 50% and a bin size of 10%, we obtain a substantially simplified problem with fifteen unknowns. We use an iterative numerical optimization to assign a probability mass to each of the bins. This program yields distribution
functions similar to the baseline solution. The average offered share of surplus (the mean of the estimated $f^{np}$) amounts to 29.8% according to the non-parametric estimates. See Figure 5.

![Figure 5: Estimated distributions of sharing rules $\hat{f}^{np}(s)$ and cost expectations $\hat{g}^{np}(c)$ in the population of eBay buyers (in percentage points). $d_{KS} = 0.0077$.](image)

Our second robustness check, reported on in the Appendix A.4.2, employs a different parametric program that restricts both $f$ and $g$ to the class of Beta probability distributions. The restriction to the Beta class boils the problem down to only four unknowns (each beta distribution is described by two parameters). While the resulting fit measured by the Kolmogorov-Smirnov distance is unsatisfactory, the similarity of the beta functions solution to our main result suggests that the findings are robust.

4 Regression Analysis

The regression analysis is a separate exercise that we conducted on the raw data. The main take-away from this section is to confirm that the offers cannot be explained by the observable characteristics. It therefore suggests that the decomposition approach is necessary to account for heterogeneity.

By the design of the experiment, we know exactly what information was available to the buyer at the time he made his offer, as well as several characteristics of the buyer himself. The dependent variable in all regressions is the normalized offer $b_i$.

4.1 Competition Marks

We start by looking at the effects of information about the number of competitors for a gift card. In BINBO, the buyers observe two signals informative of competition intensity. The
first signal is the amount of time remaining before the listing expires: the more time is left, the more buyers are expected to arrive by the end of sale, and the higher is the degree of competition. The second signal is the number of offers already outstanding by the time a given buyer makes his offer; naturally this signal conveys the information in a more direct way. Both indicators are displayed next to the ask price and barely involve any search effort (see the screen-cast URL p. 24). Both indicators should make buyers update their beliefs about the seller’s outside option. This, in turn, should have an effect on the buyers’ normalized offers. However the regression results demonstrate that both signals have insignificant effects on the subjects’ normalized offers (see Table 5 in the Appendix).

We take a further step to verify whether the simplest binary indicator of competition produces an effect. Specifically, we split the offers in two groups: those arriving first on a listing and those arriving when at least one other has been already made. The respective empirical distributions are presented in Figure 7 in the Appendix. Again, we find no significant difference in both groups’ mean offers.22

Beside the obvious explanation that any updating, however simple, is inhibited by cognitive costs, we offer two alternative reasons why the competition marks fail to produce any significant effects in the experiment. First, the subjects may use a rule of thumb when making offers, drawing on their past experience of gift card sales. Such an approach is aimed at a longer-term market performance and substantiated by a large bulk of psychological literature, e.g., Tversky and Kahneman (1974), Newell et al. (1972), Gigerenzer (2007). Second, the buyers may (rationally) expect that if the gift cards remain unsold by the deadline they go on sale again in the future. Therefore, the expected stream of future offers may outweigh any present competition, making the latter effect statistically insignificant.

4.2 Subjects’ Learning

Next, we test whether the normalized offers change over the course of our experiment, which may occur due to subjects learning about the environment. The subjects get information about the seller’s response strategy from two sources. First, the history of sales was available through eBay’s search engine at the time we conducted the experiment. For all five accounts used in the experiment, browsing the history of the account revealed that a number gift cards were listed exclusively in BINBO format and remained unsold.23 While this information could have stopped some buyers from making an offer, the regression analysis suggests that the size of normalized offers was unaffected by history (see Tables 6 and 7 in the Appendix). To proxy the opportunity of learning from history, we use calendar time:

\[ \text{ANOVA } P\text{-value} = 0.13. \]

\[ \text{Apart from a few cases when we received offers to pay the posted price that exceeds the card’s value.} \]
subjects participating at the start of the experiment have less evidence on our response behaviour than those arriving toward the end of the experiment. This finding implies that the subjects did not browse sale histories or did not take the information into account.

Second, buyers can learn from their own experiences of making an offer to a particular seller. To study the possible effect, we look at the sub-sample of the recurrent buyers. In total, 56 out of 277 buyers in our experiment made offers on multiple listings. We track how those buyers’ offers change over time. Specifically, we calculate the increment of each subsequent offer relative to the previous offer that buyer made. This variable captures the subject’s learning dynamics due to his or her experience with one of the seller accounts we use. Student’s test finds no statistically significant change in offers between two consecutive rounds of a subject’s participation.24

4.3 Effects of Experience

Buyers’ eBay experience, reflected by their feedback score,25 has a mild positive effect on normalized offer sizes (significance at 10%; see Tables 6, 7, 8 and 9 in the Appendix). Even if the effect is present, its size is extremely small. For instance, an inexperienced buyer with no feedback offers 1 percentage point less than the average buyer with 450 feedback entries.

A similarly sized effect, also statistically significant, is produced by the increase of the seller’s feedback score. However, while the effect of buyer experience is linear, the marginal effect of the seller’s experience decreases. Specifically, the effect on the normalized offer of extra feedback that the seller receives decreases drastically after just 12 feedback entries.26

The effects of buyer and seller experience do not display complementarity, i.e., there is no evidence that more experienced buyers make significantly higher or lower offers to more experienced sellers.

4.4 East and West Germany

Using data about buyers’ registered postal codes, we identify the impact of each subject’s location on the size of the offer. Our sample contains about 15% of offers stemming from the states on the former GDR territory.27 Our main observation here is that when subjects are grouped by region, there are important differences in the distribution of offers between

24P-value = 0.317.
25Note this is an imperfect measure of experience, due to the benevolent nature of ratings. In particular, the sellers’ incentives to leave feedback are limited, since they can only leave positive feedback.
26There is a statistically significant effect of seller experience when we use the feedback score from 5 accounts jointly (P-value is equal to 1.9 × 10−4). Splitting the sample into two groups, for sellers with zero feedback and at least 12 feedback entries results in P-value of 0.79 and 0.68, respectively.
27Postal codes are only indicative of current residency, not the subject’s origin.
East and West Germany. In the latter group, we observe a larger number of offers that are close to the competitive prediction – near 95 percent of the gift card value. By contrast, the buyers from East Germany make more offers in a close neighbourhood of 50 percent of the total value. (See Fig. 6 in the Appendix).

Can this variety in offers be attributed to the remaining cultural differences between East and West Germany? From the previous analysis we know that a buyer’s experience affects the average size of his offer to the seller: more experienced buyers tend to make slightly higher offers. Since West German buyers in our sample have more experience with eBay, the regional difference we observe may be due to the difference in experience. In order to correct for the possible bias, we extract a sub-sample of buyers from West Germany that has the same the distribution of feedback scores as the East German sample. After the correction, the distributions of normalized offers remain virtually unchanged and the same difference patterns emerge. The equal split of the “naive surplus” is a significantly more important focal point for East German subjects, while the competitive offers are more common among the West German subjects. In the next section, we also report on the difference between two regions at the level of offered shares of surplus.

For instance, in a large scale empirical study Alesina and Fuchs-Schündeln (2005) found that East Germans displayed higher preference for equality and redistribution – something that could reinforce the prevalence of equal splits. In two waves of a public good experiment, Ockenfels and Weimann (1999) and Brosig-Koch et al. (2011) find important differences in East and West German behaviour, which persisted two decades past the reunification. Focusing on children and adolescents aged 10 to 18, John and Thomsen (2013) find more support for other-regarding preferences in East than in West Germany.

5 Discussion

5.1 Subjects’ valuations

Suppose that the subjects do not always value the cards at their full nominal value. In that case the distribution of bids is given by:

\[
H(b) = \int_0^b \left[ \int_b^1 F \left( \frac{b-c}{v-c} \right) dW(v|v>b) \right] g(c) dc,
\]

(9)

where \(dW(v|v>b)\) is the conditional distribution of the subject’s true valuation \(v\). The valuation of a rational subject cannot be lower than his bid \(b\), but it cannot exceed 1 since the gift card can be bought at the price of 1 on the Amazon website. Comparing the original
problem with (9) we observe that our reported estimate $\hat{F}$ is in this case is equivalent to the expectation of $F$ over the values $v$:

$$\hat{F}\left(\frac{b - c}{1 - c}\right) = \int_b^1 F\left(\frac{b - c}{v - c}\right) dW(v|v > b).$$

(10)

Since function $F$ is a c.d.f. and increasing, we obtain the inequality:

$$\hat{F}\left(\frac{b - c}{1 - c}\right) = \int_b^1 F\left(\frac{b - c}{v - c}\right) dW(v|v > b) \geq \int_b^1 F\left(\frac{b - c}{1 - c}\right) dW(v|v > b) = F\left(\frac{b - c}{1 - c}\right).$$

(11)

Inequality (11) implies that our estimate $\hat{F}$ is first-order stochastically dominated by $F$. Therefore, if the subjects’ valuations are less that the card’s value then our estimate of sharing rules provides a lower bound on the actual sharing.

One may argue that the subjects offering, for instance, 1 Euro for a 100 card value the card lower than 100 and simply “try their luck”. This is to a large extent inconsequential to our estimates. To continue with the example, as long as the subject’s true value $V < 100$ is above 10 Euros his offer of 1 Euro will be allocated to the lowest 10% bin anyway (i.e., he still offers between 0 and 10 percent of $V$). Therefore the results of the non-parametric decomposition will not change. If however the subject’s value for a 100 Euro card is less than 10 Euros then we are back to the lower bound.

5.2 Risk-neutrality assumption

We have assumed that our buyers are risk-neutral. This assumption is supported by our own data and by the size of the stakes that we used. But it is also confirmed by the existent literature. In particular, given the empirical evidence for an increased risk aversion at higher monetary stakes (see, e.g., Holt and Laury (2002) and references therein), if buyers were risk-averse we would observe a reduction, on average, of offers for the gift cards of a high nominal value, e.g. 200 or 500 Euro.\textsuperscript{28} The regression results do not support this hypothesis (see Tables 5-10 in Appendix). Similarly, Fehr-Duda et al. (2010) demonstrate that the risk aversion is not identifiable in the data when the stakes are comparable to ours.

\textsuperscript{28}In 2014, the monthly disposable median net income per capita in Germany amounted to 1644 Euro (European Commission data: http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/median-income)
5.3 Competition with other sellers

As the sellers of gift cards, we face competition from other sellers present on eBay throughout the entire duration of the experiment. However, such competition is irrelevant for our analysis, since a gift card bought at a discount gives to an Amazon customer an equivalent amount of Amazon cash. As long as preferences for Amazon cash are insatiable, at least locally, the demand for transaction does not depend on the presence of other sellers offering similar cards.

5.4 The first stage of a multi-stage bargaining game

Figure 1 does not reflect the possibility of the seller's counteroffer as a third possible action. If the seller makes a counter-offer we are back to the top node where the buyer moves and the game is repeated once (and only once) again. The game depicted in Figure 1 would be repeated at most twice again and then terminate.

Our data does not support the hypothesis that subjects intend to play a multi-stage game. If this intention were systematically present, then (i) most offers would arrive on the first day of the listing (as the buyers would expect that they are starting a dialogue with the seller), and (ii) low offers would be made more frequently than higher offers within the first hours. Figure 2 in Section 2.5 suggests that there is no systematic difference in the timing of arrival across 3 days of listing, therefore (i) does not hold. Table 5, and more generally the results reported in Section 4.1, imply that (ii) is not true either.

Furthermore, even if our analysis failed to capture the fact that the subjects are actually expecting to reach the stage where the seller makes a counter-offer, it is the subjects’ first offers that are the most indicative of their true sharing intentions, i.e., the minimum surplus that they would like to give to the seller.

5.5 Related Literature

According to Card et al. (2011), laboratory experiments constitute about three quarters of all experimental economics. Following the agenda of Levitt and List (2009), List (2011), and Galizzi and Navarro Martinez (2015) who emphasize the importance of the field experiments, we study surplus sharing in the field and obtain estimates that can be contrasted with laboratory findings. In the lab, our setup is closest to the ultimatum game, which has been studied extensively. See, e.g., Guth and Kocher (2013), van Damme et al. (2014), as well as Camerer

---

29Ebay rules allow at most three exchanges of offers between a buyer and a seller. In practice, the sellers barely ever respond with a counter-offer, thus the buyers should rationally expect to have only one chance to call a price.
Comparing our findings to those studies, we see little difference between the lab and the field – at least, when the focus is on surplus division.\footnote{For the phenomenon of gift exchanges, in contrast, \cite{List2006} finds less evidence for social preferences in the field as compared to the lab in otherwise equivalent settings.}

The prominence of the equal splitting of trade surplus that we document can be explained by a theory of social preferences. One strand of this literature includes consequentialist theories, where agents have preferences over the distribution of final payoffs: \cite{Fehr1999} and \cite{Ockenfels2000}. An opposing view is that subjects’ behaviour is motivated by reciprocity in response to actions and intentions of opponents, for instance: \cite{Rabin1993}, \cite{Falk2006}, \cite{Dufwenberg2004}, \cite{Charness2002}. Taking a dynamic approach, \cite{Alger2013} rationalize social preferences as a stable evolutionary outcome. Alternatively, the egalitarian division of surplus is central to the theories of \cite{Boehm1993} and \cite{Henrich2006}.

By the nature of data it studies, our paper contributes to the growing economic literature on eBay users’ behaviour. This literature focuses predominantly on the effects of users’ reputation on transaction prices (e.g., \cite{Resnick2006}, \cite{Cabral2010}, \cite{Nosko2015}) or the benefits from gaming the mechanism, such as snipe bidding (e.g., \cite{Roth2002}, \cite{Ely2009}). A notable exception is \cite{Bolton2014}, who use the eBay platform to study the ultimatum game. They design a framed experiment where they hire students and match them via the eBay platform, while keeping the remaining features of the setup similar to the lab.

\section{Conclusion}

In this paper we present a natural field experiment\footnote{For a definition, see \cite{Harrison2004}} on the amount of surplus offered by the proposer during the first stage of a three-round bargaining game. The key goal of our experiment is to document the distribution of surplus sharing rules prevalent on a market place like eBay. We have established that the equal split of surplus is nearly as prevalent in the field as it is in the lab. Thus, the share of surplus that is given by the proposers of the price is one of the determinants of the price on eBay.

The key feature of our setup that makes it distinct from a typical lab experiment on the ultimatum game is the uncertainty of the buyer about the overall number of competitors.\footnote{In contrast, \cite{Roth1991}, \cite{Fischbacher2009} look at the behaviour within the ultimatum game where the number of competing proposers is commonly known.} Arguably, this feature is naturally present in many real world markets. As a result, compared to the settings with a publicly-observed degree of competition, we do not observe buyers

\bibliography{references
rallying up their offers to the whole nominal value of the card. Instead, there is a significant dispersion in observed offers. This implies that there is some non-zero surplus from a match of a given buyer and a seller (remember that the surplus in our setting is defined relative to the competitor’s offer). In turn, such presence of a non-trivial surplus to be shared allows to buyers to express more saliently their non-monetary preferences.

As usual, the downside of conducting a field experiment is that we do not perfectly control for players’ unobservable characteristics that define their behaviour. In particular, because of the uncertainty concerning the degree of competition, the beliefs of our subjects are less predictable than in the lab. To handle this, our paper comes up with a new methodology to decompose the observed distribution of offers into a distribution of unobserved expected value of the seller’s opportunity cost and a distribution of unobserved shares of surplus proposed by buyers.

Our main findings suggest that even in large one-shot interaction markets like eBay, participants often offer to equally split the surplus. In particular, we find that up to 44% of players offer to the seller roughly half of the total surplus, while selfish players (offering 0-10% of surplus) constitute less than a third of all our subjects. The estimated frequencies of offered shares of surplus are not far from the estimates emerging from most of the lab studies. This implies, that despite all the discrepancies between the lab and the field, lab experiments on surplus division provide a number of valid insights into behaviour in the field, both qualitatively and quantitatively.

To sum up, the eBay platform, featuring the stochastic arrival of buyers, could be considered as a fair representation of a generic market place found all over the world. Most of those markets are dynamic and uncertain – the population of traders evolves over time, some participants quit the market, while new participants enter at random. Traders do not possess perfect and common information, instead they learn about going prices and the fierceness of competition via their own private experiences of bargaining with different sellers or through observations of how markets clear; all in the same way as what happens on eBay. Our analysis suggests that because of such uncertain and evolving degrees of competition, even a large market offers a scope to share the surplus non-trivially. Clearly, more research is needed to fully understand how competition and strategic uncertainty interact with the individual preferences for pro-social behaviour.
A Appendix

A.1 Experiment

An example text used in the description box of a listing (German):

“Biete hier einen Amazon-Gutschein im Wert von 50 Euro an, gültig bis zum xx.xx.20xx. Der Gutscheincode wird nach Zahlungseingang auf meinem Konto am gleichen Tag via eBay Mitteilung versendet. Es handelt sich um echte Geschenkgutscheine (keine Aktionsgutscheine!), d.h. sie haben keinen Mindestbestellwert, es können mehrere Gutscheine kombiniert werden, und eventuelles Restguthaben verbleibt auf dem Amazon-Kundenkonto.”

English translation:

“I offer here an Amazon gift card worth 50 Euros, valid until xx.xx.20xx. The card code is sent to you via eBay message on the same day I receive payment. These are actual gift certificates (not promotion coupons!), that is, there is no minimal purchase requirement, multiple coupons can be combined, and any residual credit would remain on the Amazon account.”

Watch a video illustration at:33

https://www.youtube.com/watch?v=dKCsOhItstw.

33ATTENTION Anonymous Referee: YouTube tracks viewers’ information, please take the necessary precautions to protect your anonymity.
### A.2 Tables

#### A.2.1 Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>normalized offer</td>
<td>Offer divided by the card’s nominal value</td>
<td>0.02 .. 1</td>
</tr>
<tr>
<td>nominal</td>
<td>Gift card’s nominal in euros</td>
<td>5 .. 500</td>
</tr>
<tr>
<td>time to deadline</td>
<td>Time left to listing expiry when offer is made divided by listing duration</td>
<td>0.0007 .. 0.9988</td>
</tr>
<tr>
<td>order</td>
<td>1, if the offer arrives first on the listing, 2, if second etc.</td>
<td>1 .. 15</td>
</tr>
<tr>
<td>trend</td>
<td>Time elapsed since the arrival of the first offer, in days</td>
<td>0 .. 359.20</td>
</tr>
<tr>
<td>buyer_exp</td>
<td>Number of buyer’s eBay stars when he makes offer</td>
<td>1 .. 8847</td>
</tr>
<tr>
<td>seller_exp</td>
<td>Number of seller’s eBay stars when he receives offer</td>
<td>1 .. 511</td>
</tr>
</tbody>
</table>

Table 4: Regression variables.

<table>
<thead>
<tr>
<th>Dep.: normalized offer</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.736***</td>
<td>0.751***</td>
<td>0.737***</td>
<td>0.741***</td>
<td>0.762***</td>
</tr>
<tr>
<td>nominal</td>
<td>$-6.5 \cdot 10^{-5}$</td>
<td>$-6.5 \cdot 10^{-5}$</td>
<td>$-6.8 \cdot 10^{-5}$</td>
<td>$-6.4 \cdot 10^{-5}$</td>
<td></td>
</tr>
<tr>
<td>log(nominal)</td>
<td>$-5.8 \cdot 10^{-3}$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>time to deadline</td>
<td>$-1.8 \cdot 10^{-3}$</td>
<td>$2.1 \cdot 10^{-3}$</td>
<td>$4.6 \cdot 10^{-3}$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>order</td>
<td></td>
<td>$-2.1 \cdot 10^{-3}$</td>
<td>$-4.1 \cdot 10^{-3}$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>trend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$-1.2 \cdot 10^{-4}$</td>
</tr>
<tr>
<td>N obs</td>
<td>358</td>
<td>358</td>
<td>358</td>
<td>358</td>
<td>358</td>
</tr>
<tr>
<td>R sq.</td>
<td>0.001</td>
<td>0.001</td>
<td>0.002</td>
<td>0.002</td>
<td>0.006</td>
</tr>
</tbody>
</table>

Table 5: Regression models 1-5.

<table>
<thead>
<tr>
<th>Dep.: normalized offer</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
<th>Model 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.733***</td>
<td>0.747***</td>
<td>0.751***</td>
<td>0.763***</td>
<td>0.753***</td>
</tr>
<tr>
<td>buyer_exp</td>
<td>$2.9 \cdot 10^{-5}$*</td>
<td>$3.0 \cdot 10^{-5}$**</td>
<td>$2.8 \cdot 10^{-5}$ *</td>
<td>$2.9 \cdot 10^{-5}$*</td>
<td>$2.8 \cdot 10^{-5}$*</td>
</tr>
<tr>
<td>trend</td>
<td>$-1.24 \cdot 10^{-4}$</td>
<td>$-1.1 \cdot 10^{-4}$</td>
<td>$-1.4 \cdot 10^{-4}$</td>
<td>$-1.5 \cdot 10^{-4}$</td>
<td>$-1.1 \cdot 10^{-4}$</td>
</tr>
<tr>
<td>order</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>time to deadline</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>nominal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log(nominal)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>offer number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N obs</td>
<td>358</td>
<td>358</td>
<td>358</td>
<td>358</td>
<td>358</td>
</tr>
<tr>
<td>R sq.</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Table 6: Regression models 6-10.
### Table 7: Regression models 11-15.

<table>
<thead>
<tr>
<th>Dep.</th>
<th>Model 11</th>
<th>Model 12</th>
<th>Model 13</th>
<th>Model 14</th>
<th>Model 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.684***</td>
<td>0.695***</td>
<td>0.69***</td>
<td>0.701***</td>
<td>0.716***</td>
</tr>
<tr>
<td>log(buyer_exp)</td>
<td>1.2 · 10^{-2} *</td>
<td>1.2 · 10^{-2} *</td>
<td>1.2 · 10^{-2} *</td>
<td>1.21 · 10^{-2} *</td>
<td>1.2 · 10^{-2} *</td>
</tr>
<tr>
<td>trend</td>
<td>−1.18 · 10^{-4}</td>
<td>−1.3 · 10^{-4}</td>
<td>−1.4 · 10^{-4}</td>
<td>−1.3 · 10^{-4}</td>
<td>−1.43 · 10^{-4}</td>
</tr>
<tr>
<td>order</td>
<td>−4.2 · 10^{-3}</td>
<td>−4.7 · 10^{-3}</td>
<td></td>
<td>−4.9 · 10^{-3}</td>
<td>−4.5 · 10^{-3}</td>
</tr>
<tr>
<td>time to deadline</td>
<td>11.6 · 10^{-3}</td>
<td>10.3 · 10^{-3}</td>
<td></td>
<td>10.3 · 10^{-3}</td>
<td></td>
</tr>
<tr>
<td>nominal</td>
<td></td>
<td></td>
<td></td>
<td>−5.8 · 10^{-5}</td>
<td></td>
</tr>
<tr>
<td>log(nominal)</td>
<td></td>
<td></td>
<td></td>
<td>−6.16 · 10^{-3}</td>
<td></td>
</tr>
</tbody>
</table>

N obs | 358 | 358 | 358 | 358 | 358 |
R sq. | 0.01 | 0.012 | 0.012 | 0.014 | 0.014 |

### Table 8: Regression models 16-20.

<table>
<thead>
<tr>
<th>Dep.</th>
<th>Model 16</th>
<th>Model 17</th>
<th>Model 18</th>
<th>Model 19</th>
<th>Model 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.703***</td>
<td>0.736***</td>
<td>0.742***</td>
<td>0.714***</td>
<td>0.723***</td>
</tr>
<tr>
<td>log(buyer_exp)</td>
<td>2.41 · 10^{-5}</td>
<td>2.55 · 10^{-5}</td>
<td>2.43 · 10^{-5} *</td>
<td>2.53 · 10^{-5} *</td>
<td></td>
</tr>
<tr>
<td>buyer_exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log(seller_exp)</td>
<td>9.9 · 10^{-5} *</td>
<td>1.17 · 10^{-4} *</td>
<td>1.60 · 10^{-2}***</td>
<td>1.52 · 10^{-2}***</td>
<td></td>
</tr>
<tr>
<td>seller_exp</td>
<td></td>
<td></td>
<td></td>
<td>1.1 · 10^{-2}</td>
<td>1.76 · 10^{-2}</td>
</tr>
<tr>
<td>trend</td>
<td>−1.41 · 10^{-4}</td>
<td>−1.39 · 10^{-4}</td>
<td>−1.37 · 10^{-4}</td>
<td>−1.37 · 10^{-4}</td>
<td>−1.43 · 10^{-4}</td>
</tr>
<tr>
<td>order</td>
<td>−8.7 · 10^{-3}</td>
<td>−8.55 · 10^{-3}</td>
<td>−10.9 · 10^{-3}</td>
<td>−10.9 · 10^{-3}</td>
<td>−10.2 · 10^{-3}</td>
</tr>
<tr>
<td>time to deadline</td>
<td>1.11 · 10^{-2}</td>
<td>1.75 · 10^{-2}</td>
<td></td>
<td>1.76 · 10^{-2}</td>
<td></td>
</tr>
<tr>
<td>nominal</td>
<td></td>
<td></td>
<td></td>
<td>−7.04 · 10^{-5}</td>
<td>−8.01 · 10^{-5}</td>
</tr>
<tr>
<td>log(nominal)</td>
<td></td>
<td></td>
<td></td>
<td>1.60 · 10^{-2}***</td>
<td>1.52 · 10^{-2}***</td>
</tr>
</tbody>
</table>

N obs | 358 | 358 | 358 | 358 | 358 |
R sq. | 0.016 | 0.022 | 0.025 | 0.036 | 0.034 |

### Table 9: Regression models 21-24.

<table>
<thead>
<tr>
<th>Dep.</th>
<th>Model 21</th>
<th>Model 22</th>
<th>Model 23</th>
<th>Model 24</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.636***</td>
<td>0.666***</td>
<td>0.669***</td>
<td>0.669***</td>
</tr>
<tr>
<td>log(buyer_exp)</td>
<td>0.98 · 10^{-2}</td>
<td>1.07 · 10^{-2}</td>
<td>1.05 · 10^{-2}</td>
<td>1.1 · 10^{-2}</td>
</tr>
<tr>
<td>log(seller_exp)</td>
<td>1.32 · 10^{-2} **</td>
<td>1.51 · 10^{-2} ***</td>
<td>1.61 · 10^{-2} ***</td>
<td>1.52 · 10^{-2} ***</td>
</tr>
<tr>
<td>trend</td>
<td>−1.41 · 10^{-4}</td>
<td>−1.39 · 10^{-4}</td>
<td>−1.37 · 10^{-4}</td>
<td>−1.37 · 10^{-4}</td>
</tr>
<tr>
<td>order</td>
<td>−8.7 · 10^{-3}</td>
<td>−1.04 · 10^{-2}</td>
<td>−9.66 · 10^{-3}</td>
<td>−9.66 · 10^{-3}</td>
</tr>
<tr>
<td>time to deadline</td>
<td>2.11 · 10^{-2}</td>
<td>2.13 · 10^{-2}</td>
<td></td>
<td>2.13 · 10^{-2}</td>
</tr>
<tr>
<td>nominal</td>
<td></td>
<td></td>
<td></td>
<td>−8.4 · 10^{-5}</td>
</tr>
<tr>
<td>log(nominal)</td>
<td></td>
<td></td>
<td></td>
<td>−5.55 · 10^{-3}</td>
</tr>
</tbody>
</table>

N obs | 358 | 358 | 358 | 358 |
R sq. | 0.023 | 0.032 | 0.036 | 0.034 |
<table>
<thead>
<tr>
<th>Dep.: normalized offer</th>
<th>NL Model 1</th>
<th>NL Model 2</th>
<th>NL Model 3</th>
<th>NL Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.63***</td>
<td>0.66***</td>
<td>0.703***</td>
<td>0.67***</td>
</tr>
<tr>
<td>log(seller_exp)</td>
<td>1.32·10^{-2}*</td>
<td>5.8·10^{-3}</td>
<td></td>
<td></td>
</tr>
<tr>
<td>log(buyer_exp)</td>
<td>9.83·10^{-3}</td>
<td>5.1·10^{-3}</td>
<td></td>
<td></td>
</tr>
<tr>
<td>log(buyer_exp) * log(seller_exp)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>seller_exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>buyer_exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>seller_exp*buyer_exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>seller_exp^2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>buyer_exp^2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N obs</td>
<td>358</td>
<td>358</td>
<td>358</td>
<td>358</td>
</tr>
<tr>
<td>R sq.</td>
<td>0.023</td>
<td>0.024</td>
<td>0.016</td>
<td>0.026</td>
</tr>
</tbody>
</table>

*Table 10: Regression models 25-28.*
A.2.2 Decomposition

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>$\hat{\gamma}_0$</th>
<th>$\hat{\gamma}_1$</th>
<th>$\hat{\gamma}_2$</th>
<th>$\hat{\gamma}_3$</th>
<th>$\hat{\gamma}_4$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>-43.9533</td>
<td>73.5298</td>
<td>-52.4472</td>
<td>22.4486</td>
<td>-8.4939</td>
</tr>
<tr>
<td>Coefficient</td>
<td>$\hat{\delta}_0$</td>
<td>$\hat{\delta}_1$</td>
<td>$\hat{\delta}_2$</td>
<td>$\hat{\delta}_3$</td>
<td>$\hat{\delta}_4$</td>
</tr>
<tr>
<td>Estimate</td>
<td>8.39309</td>
<td>-11.4105</td>
<td>4.53588</td>
<td>0.639369</td>
<td>-2.1579</td>
</tr>
</tbody>
</table>

Table 11: Chebyshev polynomial coefficients.

<table>
<thead>
<tr>
<th>$s$: 0-10%</th>
<th>10-20%</th>
<th>20-30%</th>
<th>30-40%</th>
<th>40-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$f^{np}(s)$:</td>
<td>25.9</td>
<td>7.4</td>
<td>3.7</td>
<td>18.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$c$: 0-10%</th>
<th>10-50%</th>
<th>50-60%</th>
<th>60-70%</th>
<th>70-80%</th>
<th>80-90%</th>
<th>90-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$g^{np}(c)$:</td>
<td>14.3</td>
<td>7.1</td>
<td>5.4</td>
<td>17.9</td>
<td>23.2</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Table 12: Non-parametric estimate of the distributions of sharing rules ($f$) and beliefs ($g$).

<table>
<thead>
<tr>
<th>$s$: 0-10%</th>
<th>10-20%</th>
<th>20-30%</th>
<th>30-40%</th>
<th>40-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$f^{p}(s)$:</td>
<td>23.5%</td>
<td>12.9%</td>
<td>12.0%</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$c$: 0-10%</th>
<th>10-50%</th>
<th>50-60%</th>
<th>60-70%</th>
<th>70-80%</th>
<th>80-90%</th>
<th>90-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$g^{p}(c)$:</td>
<td>0.4%</td>
<td>22.1%</td>
<td>11.9%</td>
<td>14.4%</td>
<td>16.6%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Table 13: Parametric estimates when $f$ and $g$ are restricted to the class of $\beta$ distributions. $\alpha^f = 0.230$, $\beta^f = 0.031$; $\alpha^g = 2.470$, $\beta^g = 1.121$, Kolmogorov-Smirnov distance = 0.066 (rejected).
| Iteration | 0  | 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | ... | 50 |
|-----------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| $f(b_1)$  | 20%| 14.3%| 11.1%| 9.1%| 14.3%| 20.0%| 22.2%| 26.3%| 28.6%| 27.3%| 26.1%| 28.0%| 26.9%| 25.9%| 25.9%| |
| $f(b_2)$  | 20%| 14.3%| 11.1%| 18.2%| 14.3%| 13.3%| 11.1%| 10.5%| 9.5%| 9.1%| 8.7%| 8.0%| 7.7%| 7.4%| 7.4%|  |
| $f(b_3)$  | 20%| 14.3%| 11.1%| 9.1%| 7.1%| 6.7%| 5.6%| 5.3%| 4.8%| 4.5%| 4.3%| 4.0%| 3.8%| 3.7%| 3.7%|  |
| $f(b_4)$  | 20%| 28.6%| 33.3%| 27.3%| 28.6%| 26.7%| 27.8%| 26.3%| 23.8%| 22.7%| 21.7%| 20.0%| 19.2%| 18.5%| 18.5%|  |
| $f(b_5)$  | 20%| 28.6%| 33.3%| 36.4%| 35.7%| 33.3%| 31.6%| 33.3%| 36.4%| 39.1%| 40.0%| 42.3%| 44.4%| 44.4%| | |
| $g(b_1)$  | 10%| 7.1%| 5.6%| 4.8%| 8.3%| 7.7%| 10.0%| 9.4%| 10.5%| 11.4%| 12.5%| 13.5%| 14.3%| 14.3%| 14.3%|  |
| $g(b_2)$  | 10%| 7.1%| 5.6%| 4.8%| 4.2%| 3.8%| 3.3%| 3.1%| 2.6%| 2.3%| 2.1%| 2.1%| 1.9%| 1.8%| 1.8%|  |
| $g(b_3)$  | 10%| 7.1%| 5.6%| 4.8%| 4.2%| 3.8%| 3.3%| 3.1%| 2.6%| 2.3%| 2.1%| 2.1%| 1.9%| 1.8%| 1.8%|  |
| $g(b_4)$  | 10%| 7.1%| 5.6%| 4.8%| 4.2%| 3.8%| 3.3%| 3.1%| 2.6%| 2.3%| 2.1%| 2.1%| 1.9%| 1.8%| 1.8%|  |
| $g(b_5)$  | 10%| 7.1%| 5.6%| 4.8%| 4.2%| 3.8%| 3.3%| 3.1%| 2.6%| 2.3%| 2.1%| 2.1%| 1.9%| 1.8%| 1.8%|  |
| $g(b_6)$  | 10%| 7.1%| 5.6%| 4.8%| 4.2%| 3.8%| 3.3%| 3.1%| 2.6%| 2.3%| 2.1%| 2.1%| 1.9%| 1.8%| 1.8%|  |
| $g(b_7)$  | 10%| 14.3%| 16.7%| 19.0%| 16.7%| 15.4%| 16.7%| 15.6%| 15.8%| 15.9%| 16.7%| 16.7%| 16.7%| 17.3%| 17.9%| 17.9%|
| $g(b_8)$  | 10%| 14.3%| 16.7%| 19.0%| 20.8%| 23.1%| 23.3%| 25.0%| 23.7%| 22.7%| 22.9%| 23.1%| 23.2%| 23.2%| 23.2%|  |
| $g(b_9)$  | 10%| 14.3%| 16.7%| 19.0%| 20.8%| 23.1%| 23.3%| 25.0%| 23.7%| 22.7%| 22.9%| 23.1%| 23.2%| 23.2%| 23.2%|  |
| $g(b_{10})$ | 10%| 14.3%| 16.7%| 14.3%| 12.5%| 11.5%| 10.0%| 9.4%| 10.5%| 11.4%| 10.4%| 10.4%| 9.6%| 10.7%| 10.7%|  |

KS-stat | 0.1364 | 0.1658 | 0.0667 | 0.0398 | 0.0327 | 0.0264 | 0.0196 | 0.0171 | 0.0143 | 0.0127 | 0.0106 | 0.0089 | 0.0081 | 0.0077 | 0.0077 |

Table 14: The consecutive iterations of the binary search procedure.
<table>
<thead>
<tr>
<th>Iteration</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>...</th>
<th>24</th>
<th>...</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>$f(b_1)$</td>
<td>16.7%</td>
<td>12.5%</td>
<td>9.1%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>13.3%</td>
<td>16.7%</td>
<td>19.0%</td>
<td>21.7%</td>
<td>22.2%</td>
<td>19.4%</td>
<td>21.2%</td>
<td>22.9%</td>
<td>23.7%</td>
<td>23.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$f(b_2)$</td>
<td>16.7%</td>
<td>12.5%</td>
<td>9.1%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>6.7%</td>
<td>5.6%</td>
<td>4.8%</td>
<td>4.3%</td>
<td>3.7%</td>
<td>6.5%</td>
<td>6.1%</td>
<td>5.7%</td>
<td>8.5%</td>
<td>8.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$f(b_3)$</td>
<td>16.7%</td>
<td>12.5%</td>
<td>9.1%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>6.7%</td>
<td>5.6%</td>
<td>4.8%</td>
<td>4.3%</td>
<td>3.7%</td>
<td>3.2%</td>
<td>3.0%</td>
<td>2.9%</td>
<td>1.7%</td>
<td>1.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$f(b_4)$</td>
<td>16.7%</td>
<td>12.5%</td>
<td>18.2%</td>
<td>16.7%</td>
<td>16.7%</td>
<td>20.0%</td>
<td>22.2%</td>
<td>19.0%</td>
<td>17.4%</td>
<td>18.5%</td>
<td>19.4%</td>
<td>21.2%</td>
<td>22.9%</td>
<td>16.9%</td>
<td>16.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$f(b_5)$</td>
<td>16.7%</td>
<td>25.0%</td>
<td>27.3%</td>
<td>33.3%</td>
<td>33.3%</td>
<td>33.3%</td>
<td>33.3%</td>
<td>34.8%</td>
<td>33.3%</td>
<td>32.3%</td>
<td>30.3%</td>
<td>28.6%</td>
<td>37.3%</td>
<td>37.3%</td>
<td>37.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$f(b_6)$</td>
<td>16.7%</td>
<td>25.0%</td>
<td>27.3%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>20.0%</td>
<td>16.7%</td>
<td>19.0%</td>
<td>17.4%</td>
<td>18.5%</td>
<td>19.4%</td>
<td>18.2%</td>
<td>17.1%</td>
<td>11.9%</td>
<td>11.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_1)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_2)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>5.6%</td>
<td>9.1%</td>
<td>7.7%</td>
<td>7.4%</td>
<td>6.3%</td>
<td>5.6%</td>
<td>5.4%</td>
<td>4.9%</td>
<td>4.4%</td>
<td>4.3%</td>
<td>3.9%</td>
<td>2.6%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_3)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_4)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_5)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>2.6%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_6)$</td>
<td>10.0%</td>
<td>7.1%</td>
<td>11.1%</td>
<td>9.1%</td>
<td>7.7%</td>
<td>7.4%</td>
<td>6.3%</td>
<td>5.6%</td>
<td>5.4%</td>
<td>4.9%</td>
<td>4.4%</td>
<td>4.3%</td>
<td>3.9%</td>
<td>2.6%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_7)$</td>
<td>10.0%</td>
<td>14.3%</td>
<td>16.7%</td>
<td>18.2%</td>
<td>19.2%</td>
<td>18.5%</td>
<td>18.8%</td>
<td>19.4%</td>
<td>19.5%</td>
<td>20.0%</td>
<td>19.6%</td>
<td>19.6%</td>
<td>19.5%</td>
<td>19.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_8)$</td>
<td>10.0%</td>
<td>14.3%</td>
<td>16.7%</td>
<td>18.2%</td>
<td>19.2%</td>
<td>18.5%</td>
<td>18.8%</td>
<td>19.4%</td>
<td>21.6%</td>
<td>22.0%</td>
<td>22.2%</td>
<td>23.9%</td>
<td>23.5%</td>
<td>27.3%</td>
<td>27.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_9)$</td>
<td>10.0%</td>
<td>14.3%</td>
<td>16.7%</td>
<td>18.2%</td>
<td>19.2%</td>
<td>22.2%</td>
<td>21.9%</td>
<td>22.2%</td>
<td>21.6%</td>
<td>22.0%</td>
<td>22.2%</td>
<td>21.7%</td>
<td>21.6%</td>
<td>19.5%</td>
<td>19.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$g(b_{10})$</td>
<td>10.0%</td>
<td>14.3%</td>
<td>11.1%</td>
<td>9.1%</td>
<td>7.7%</td>
<td>7.4%</td>
<td>9.4%</td>
<td>8.3%</td>
<td>8.1%</td>
<td>7.3%</td>
<td>6.7%</td>
<td>6.5%</td>
<td>7.8%</td>
<td>7.8%</td>
<td>7.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

KS 0.1250 0.0550 0.0411 0.0361 0.0322 0.0271 0.0190 0.0171 0.0161 0.0151 0.0129 0.0066 0.0066

Table 15: The consecutive iterations of the binary search procedure, with restriction 0.6.
A.3 Figures

Figure 6: Smooth kernel histograms for the offers made by the East (red) and the West German participants (blue).

Figure 7: The histogram of the normalized offers (grey bars) and smooth kernel histograms for the offers made first (blue) and all the higher-order offers (red).
A.4 Robustness Checks

A.4.1 Note: Non-parametric Decomposition

As an alternative way to solve for \( f \) and \( g \), we discretize the support of distributions in (3) and we search for finite solution approximations using a non-parametric approach. In an iterative procedure with the initial state where both \( f \) and \( g \) are uniform, we gradually increase precision until the solution cannot be improved. The estimates of \( f \) and \( g \) are chosen to minimize the Kolmogorov-Smirnov distance as a goodness-of-fit criterion, adapted to the discrete case:

\[
d_{KS}(\hat{H}, H) \equiv \sup_{\{b_k\}_{k=1..10}} |\hat{H}(b_k) - H(b_k)|, (12)
\]

where both \( \hat{H} \) and \( H \) are defined on a set of bins \( (b_1, b_2, .., b_{10}) = (0.1, 0.2, .., 1) \). In the discrete problem, we look for \( \hat{f} \) and \( \hat{g} \) that minimize (12), subject to \( \hat{f}(b_k) = 0 \) for \( k = 6, 7, .., 10 \), and \( \sum_k \hat{f}(b_k) = \sum_k \hat{g}(b_k) = 1 \). (Recall that \( \hat{f} \) and \( \hat{g} \) define \( \hat{H} \) according to (8)).

We estimate discretized versions of \( f \) and \( g \) simultaneously at each iteration. As a starting point of recurrence, we consider uniform \( f \) and \( g \) that correspond to the maximal entropy in both \( c \) and \( s \) (See Table 14 in the Appendix). That is, we assign equal mass to each of the 5 bins of \( f \) and 10 bins of \( g \) at the first iteration. The candidate solution can be represented as a vector of ones: \( v_1 = (1, 1, .., 1) \); it corresponds to the distribution of probability mass across bins before normalization. \( v_1 \) is the unique candidate solution at the first iteration, thus we set \( v^*_1 = v_1 \). At the second iteration, we consider all elements \( e_{2,k} \) of the set \( \{0,1\}^{15} \) and the respective \( v_{2,k} = v_1 + e_{2,k} \). This gives \( 2^{15} = 32768 \) candidate solutions \( (f, g) \) and we choose the one that minimizes the Kolmogorov-Smirnov distance and take it to iteration \( t + 1 \). Generally, in iteration \( t \), we go through all possible constellations of adding one unit or not changing the mass in the bins of distributions defined by \( v^*_t \) selected at iteration \( t - 1 \). Among the pairs of \( f \) and \( g \) we select the one that minimizes the Kolmogorov-Smirnov distance and take it to iteration \( t + 1 \). The process is repeated until the result at a subsequent iteration stays unchanged. Note that as the depth of the binary search tree increases, the estimates become increasingly precise. The results of the non-parametric approach are presented in Table 12.

Define \( \hat{H}^{np} \) as in (8) by substituting in \( \hat{f} = \hat{f}^{np} \) and \( \hat{g} = \hat{g}^{np} \) from Table 12. \( \hat{H}^* \) is an extremely good fit for \( H \): the Kolmogorov-Smirnov distance is \( 7.7 \times 10^{-3} \), meaning that the maximal divergence between \( \hat{H}^{np} \) and \( H \) across bins is less than 1 percentage point. The corresponding bootstrap test does not distinguish between \( H \) and \( \hat{H}^{np} \) at the conventional
significance levels, implying that $H$ and $\hat{H}^{bp}$ can be regarded as equivalent.

As a further robustness check, we relax the restriction on the support of $f$ allowing six bins; similar results are obtained (see Table 15).

### A.4.2 Note: Parametric Decomposition with Beta Distributions.

As a further robustness check, we look for estimates $\hat{f}_\beta$ and $\hat{g}_\beta$ within the class of the beta distributions. The beta class is chosen due to its support on $[0, 1]$, small number of parameters and flexibility, as Beta distributions can have one or two modes. Since each of the distributions $f$ and $g$ is pinned down by two parameters, the problem to find the suitable $\hat{H}(.)$ in (7) is now (only) four-dimensional. We estimate the parameters by random grid search. More precisely, we fix a grid size for each of four parameters and randomly choose the grid position. For every intersection of the grid (a combination of four parameter values), we compute the discretized versions of $f$ and $g$, estimate the integral (8), then we calculate the Kolmogorov-Smirnov distance and reiterate to find the best-performing combination of parameters. By performing the procedure multiple times, we refine the search and narrow down the parameters ranges. A random grid search permits us to trace out local minima and find the global solution. We report the parametric estimates of distributions $\hat{f}_\beta$ and $\hat{g}_\beta$ Table 13. The parametric Beta estimates $\hat{f}_\beta$ and $\hat{g}_\beta$ are dominated by both the parametric and the non-parametric solutions reported in the main text of the paper (Kolmogorov-Smirnov distance $= 0.066$). The distributions have a shape similar to the non-parametric estimates $\hat{f}^*$ and $\hat{g}^*$, with the exception of the lowest bin in the distribution of cost estimates $\hat{g}$.

---

34Bootstrap critical values corresponding to 358 observations are 0.049 for significance at 10%, 0.057 for significance at 5%, and 0.071 for significance at 1%.

35Excluding the uniform distribution.
References


