Self-selection Into Contests*

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Abstract

We study self-selection into contests among a large population of heterogeneous agents. We show that entry into the "richer" contest (in terms of show-up fees, number or value of prizes) is non-monotone in ability. Entry into the more meritocratic (i.e., discriminatory) contest exhibits two interior extrema. Other testable predictions of our model are: 1) All else equal, the more meritocratic contest is "exclusive," i.e., it attracts only a minority of the population; 2) Agents of very low ability disproportionately enter the more meritocratic contest; 3) Making a contest more meritocratic, or raising the value of prizes, may lower the average ability of entrants. Offering a higher show-up fee may lower entry.

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1 Introduction

Contests form an integral part of modern life; sometimes explicitly, as in innovation tournaments like the X-prize, but more often implicitly, as when individuals compete for promotions in an organization. In a world where contests are ubiquitous, people often have to choose which contest to enter. A key aspect of this choice is the familiar ponds dilemma: is it better to be a big fish in a small pond, or a small fish in a big pond? For instance, a golfer struggling on the PGA tour may well consider his options on the Asian tour. A freshly minted JD from a top law school may have to choose between working at a "white shoe" law firm in New York or joining a less competitive firm in Seattle. And a pharmaceutical firm may have to decide whether to focus its R&D on a risky "blockbuster" drug or on a less risky, and less profitable, extension of an existing patent. Economically, the important point is that the structural properties of contests, such as the number and value of prizes, not only affect behavior *within*, but also selection *across* contests.

In this paper, we present the first unified analysis of selection across contests, in a simple and highly tractable model. We show that entry into "the big pond," i.e., the contest richer in show-up fees, or in the number or value of prizes, is non-monotone in ability. When contests differ in terms of meritocracy (i.e., discriminatoriness), entry into the more meritocratic contest takes on two interior extrema, first reaching a minimum, then a maximum. Other testable predictions of our model are: 1) All else equal, the more meritocratic contest is "exclusive." That is, it attracts only a minority of the population; 2) Agents of very low ability disproportionately enter the more meritocratic contest; 3) Making a contest more meritocratic, or raising the value of prizes, may lower the average ability of entrants. Offering a higher show-up fee may lower entry.

When studying entry, the usual first step is to postulate a fixed outside option available to all agents. We examine this scenario for contests and show that the upper tail of the ability distribution enters the contest, while the remainder opts for the outside option. In terms of the ponds dilemma, big fish choose the big pond (i.e., they compete), and small fish choose the small pond (i.e., they bow out). In light of this result, which aligns nicely with most people's intuition, one may reinterpret the bulk of the literature on contests as pertaining to a truncated distribution of ability types for whom participating in the contest is more profitable than a fixed outside option.

This simple model of selection proves badly misleading when, rather than a fixed outside option, the alternative to participating in one contest is participating in another contest. When choosing between contests, agents weigh the potential rewards against the ability-dependent chances of success. The key observation is that, even though success probabilities in both contests are increasing in ability, their difference and likelihood ratio are not. For those of extreme ability (high or low), the likelihood ratio is approximately one, since chances of success—or lack thereof—are essentially the same regardless of the contest chosen. By contrast, for middling sorts, the likelihood ratio clearly favors the "small pond." This non-monotonicity carries over the selection and, as a consequence, the common intuition for the ponds dilemma fails.

Concretely, we study how a large, heterogenous population of risk-neutral agents self-selects across two mutually exclusive contests. We consider four dimensions in which the contests may differ: *i)* their show-up or entry fees; *ii)* the number of (equal) prizes; *iii)* the value of these prizes; and *iv)* discriminatoriness. The last aspect corresponds to noisiness in performance evaluation and can be interpreted as a measure of meritocracy. The existing literature is cognizant of the importance of discriminatoriness in determining contestants' behavior. However, interpreting it in terms of meritocracy and connecting it to entry is one of the contributions of the current paper.

When agents self-select across contests, the contests' endogenously determined ability distributions no longer correspond to simple, truncated versions of the population at large. For instance, suppose the contests differ in terms of show-up fees. Then the contest offering the higher show-up fee disproportionately attracts those of extreme ability—both high and low—and repels middling sorts. Thus, even if the underlying ability distribution is unimodal, the distribution in the high show-up fee contest tends to be bimodal. The key to this result is the presence of both a direct and an indirect effect of show-up fees on selection. The direct effect is, of course, to make the high show-up fee contest more attractive to all contestants. However, owing to the scarcity of prizes, greater entry raises the "performance standard" required to succeed in this contest. We refer to the change in standards as the indirect effect. A higher standard is particularly costly for agents "on the bubble," i.e., for middling sorts most uncertain about winning or losing. For them, the ratio of success probabilities clearly favors the low-fee contest. This results in a selection of talent whereby middling sorts are underrepresented in the high-fee contest, while extreme types are overrepresented.

When contests differ in the number of (equal) prizes on offer, only indirect effects are present. The reason is that the number of prizes only matters to the extent that it affects performance standards. Offering more prizes reduces a contest's standard. This is most valuable for agents on the bubble but matters much less for infra-marginal types. As a result, middling sorts disproportionately enter the prize-rich contest, making abilities there more homogeneous than in the population at large.

A difference in prize values has direct as well as indirect effects, both of which are type-dependent. While show-up fees are equally valuable to all, higher prizes are most attractive to those anticipating to win, i.e., agents of high ability. For them, the positive direct effect of a higher prize dominates the negative indirect effect of a higher standard. As a consequence, high types are overrepresented in the high-prize contest. For middling sorts, it is the negative indirect effect that dominates. Hence, they are overrepresented in the low-prize contest. Since agents of very low ability stand virtually no chance of winning in either contest, they enter both contests with almost equal probability. In other words, selection effects vanish in the lower tail. As we show, one noteworthy implication is that a contest may well raise the value of its prizes, only to see the average ability of contestants fall.

Perhaps the most subtle difference between contests is in their degree of meritocracy. In our model, a difference in meritocracy corresponds to a mean-preserving spread in the noisiness of performance evaluations. Since agents are risk-neutral, such a spread might seem immaterial. Indeed, meritocracy would not matter if measured performance and payoffs varied proportionately as in, e.g., a Roy model. In a contest, however, payoffs are highly non-linear. To see the effect, notice that an increase in meritocracy reduces the chance that an agent's performance is mis-evaluated. This is beneficial for high types, who worry about an evaluation that does not reflect their true ability, and detrimental for low types, who actually require a mis-evaluation in order to succeed. Nonetheless, monotone selection still fails since, at the extremes, agents care relatively little about meritocracy. For very high types, even an adverse performance evaluation suffices to win, while for very low types, even an advantageous performance evaluation will not save the day. Hence, meritocracy does produce positive sorting, but with waning power in the tails. We also show that the more meritocratic contest is always "exclusive;" that is, it attracts only a minority of the population. Jointly, the loss of selection power in the tails and exclusivity have the counterintuitive implication that agents of very low ability disproportionately enter the more meritocratic contest. As with higher prize values, a rise in meritocracy may cause a drop in the average ability of contestants.

Strictly speaking, the results and intuitions discussed so far pertain to contests differing in one dimension only. We also characterize selection when contests differ in multiple—or even all—dimensions simultaneously. In that case, show-up fees alone determine selection of very low types, while the sum of show-up fees and prize values determines the selection of very high types. Meritocracy shapes behavior in between these extremes, producing two interior extrema. Finally, the number of prizes affects selection only indirectly, through its effect on standards.

Before proceeding, a comment on methodology is in order. In the extant literature, the population of contestants is generally taken to be exogenous, while effort levels are endogenous. Initially, we focus on the polar opposite case, i.e., endogenous entry with exogenous effort. This allows us to derive crisp results with clear intuitions. Subsequently, we show that our results carry over to contests with endogenous populations *and* endogenous effort, provided that the differences in structural parameters across contests are not too large.

The paper proceeds as follows. In Section 2 we introduce the baseline model with exogenous effort and endogenous selection. In Section 3 we prove existence of equilibrium and illustrate the potential complexity of selection behavior by means of a numerical example. Section 4 contains a formal analysis of self-selection, both for univariate as well as for multivariate differences between contests. In Section 5 we extend the model to allow for endogenous effort and show that our previous results carry over, provided the contests' structural parameters are "close." Section 6 discusses the related literature. Finally, Section 7 concludes. While intuitions for our results are provided in the main text, formal proofs have been relegated to an appendix. Mathematica code implementing the numerical examples is available from the authors upon request.

2 Model

Consider a unit mass of risk-neutral agents with heterogenous abilities $a \in \mathbb{R}$. Abilities are distributed according to an atomless cumulative distribution function (CDF) G with strictly positive probability density function (PDF) g. Each agent must choose between two contests, 1 and 2. An agent of ability a entering Contest $i \in \{1, 2\}$ has measured performance $y_i(a)$, where

$$y_i = a + \varepsilon_i \ .$$

The random variable (RV) ε_i represents noise in performance measurement. Its dispersion typically differs across contests but not across agents within a contest, while its realizations are independent across contests and agents.

We have cast the model as one where performance is deterministic but noisily measured. Alternatively, one may suppose that performance itself is stochastic. The first interpretation is appropriate for settings where measurement is difficult or highly subjective. For example, competitions for literary prizes fall into this category. The second interpretation applies when performance itself is subject to random factors outside the control of contestants, such as in certain sports contests. A combination of noisy performance and noisy measurement can also be accommodated.

We assume that the distribution of ε_i belongs to a location-scale family with location parameter zero and scale parameter $\sigma_i > 0$. Here, $1/\sigma_i$ is a measure of the meritocracy, i.e., discriminatoriness, of the contest. Noise ε_i admits a CDF $F\left(\frac{\varepsilon_i}{\sigma_i}\right)$ with associated PDF $\frac{1}{\sigma_i} f\left(\frac{\varepsilon_i}{\sigma_i}\right)$. Density $f(\cdot)$ is assumed to be single-peaked around zero and strictly positive on $\mathbb{R}$. Moreover, f is continuous, strictly log-concave and has a bounded derivative f'.

Regardless of performance, an agent entering Contest $i \in \{1, 2\}$ receives a (possibly negative) show-up fee $w_i \in \mathbb{R}$. In addition, the agent earns a prize $v_i \geq 0$ iff he is among the winners of the contest. The set of winners in Contest i consists of the mass $m_i > 0$ of agents with the highest performance measures. Prizes are scarce overall, i.e., $m_1 + m_2 < 1$. We refer to show-up fees w_i, number of prizes m_i, values of prizes v_i, and measures of meritocracy σ_i as the *structural parameters* of the contests.

Notice that the quantiles of measured performance among a continuum of agents are perfectly predictable. Hence, the condition for winning in Contest i is characterized by a deterministic performance threshold, or *standard*, which we denote by $\theta_i \in [-\infty, \infty)$. To summarize, an agent of ability a choosing Contest i with standard θ_i enjoys an expected *pecuniary* payoff

$$\pi_i(a, \theta_i) = w_i + v_i \bar{F}\left(\frac{\theta_i - a}{\sigma_i}\right) \ .$$

Here, $\bar{F} \equiv 1 - F$ denotes the decumulative distribution function of ε_i/σ_i.

In addition to valuing money, agents also derive (potentially small) non-pecuniary benefits (or costs) from participating in each contest. These payoffs are idiosyncratic and might derive from the nature of the task required, the physical location of the contest, the personalities of the organizers, and so on.[1] Let the RV δ denote the *difference* in an agent's non-pecuniary payoffs from participating in Contest 2 versus Contest 1. Hence, an agent non-pecuniarily prefers Contest 1 if and only if $\delta \leq 0$. We assume that the realizations of δ have full support on $\mathbb{R}$ and are i.i.d. across agents. The distribution of δ belongs to a location-scale family with location parameter and median $\tau \in \mathbb{R}$ and scale parameter $\rho > 0$. The CDF and associated PDF of δ are $\Gamma\left(\frac{\delta-\tau}{\rho}\right)$ and $\frac{1}{\rho}\gamma\left(\frac{\delta-\tau}{\rho}\right)$, respectively. Agents enter the contest that offers them the higher total expected payoff, which is equal to the sum of pecuniary and non-pecuniary payoffs. In case of indifference, they flip a coin.

Let $H_i(a)$ denote the cumulative *mass* function (CMF) of endogenously determined abilities in Contest i. That is, $H_i(a)$ is the measure of entrants into i with ability a or lower. Provided it exists, the corresponding mass density function (MDF) is denoted by $h_i(a)$, i.e., $h_i(a) \equiv dH_i(a)/da$. Because we have normalized the population mass to 1, the CMFs in the two contests must add up to the CDF of abilities in the population as a whole. That is, $\forall a \in \mathbb{R}$, $H_1(a) + H_2(a) = G(a)$. Moreover, $\lim_{a\to\infty} H_i(a)$ must equal the fraction of the population entering Contest i, which we denote by $\Pr i$. Finally, let $G_i(a)$ denote the CDF of endogenously determined abilities in Contest i, i.e., $G_i(a) \equiv H_i(a)/\Pr i$. The corresponding PDF is $g_i(a)$.

To close the model, we offer a formal definition of market clearing and define equilibrium of the game as a whole. If fewer than a mass m_i of agents have entered Contest i, then $\theta_i = -\infty$ and all entrants receive a prize v_i. In that case, we say that Contest i is *uncompetitive.* A contest is said to be *competitive* when strictly more than m_i have entered. In a competitive contest, standard θ_i adjusts such that the mass of winners W_i —i.e., contestants whose performance exceeds the standard—equals the mass m_i of prizes. In other words, θ_i solves

$$W_i(\theta_i) \equiv \int_{-\infty}^{\infty} \bar{F}\left(\frac{\theta_i - a}{\sigma_i}\right) dH_i(a) = m_i \ . \tag{1}$$

Agents simultaneously and independently choose which contest to enter. A Bayesian

[1] In addition to realism, an advantage of including non-pecuniary payoffs is that they smooth out agents' selection behavior. That is, non-pecuniary payoffs make agents' entry probabilities a continuous function of pecuniary payoffs and ability, rather than a step function. As a consequence, entry probabilities not only indicate an agent's preference for one contest or the other, but also express the *intensity* of that preference.

Nash equilibrium of the game consists of a tuple $\{(H_1^*(a), H_2^*(a)), (\theta_1^*, \theta_2^*)\}$ of CMFs $H_i^*(a)$ and standards θ_i^* such that: 1) conditional on H_i^*, standard θ_i^* clears the market for prizes in Contest i; and 2) entry decisions induced by (θ_1^*, θ_2^*) give rise to CMFs $\{H_1^*(a), H_2^*(a)\}$.[2]

3 Equilibrium

We solve for equilibrium in three steps. First we show that, conditional on entry decisions characterized by (H_1, H_2), there exist unique performance standards (θ_1, θ_2) that clear the market for prizes in each contest. Second, we show that standards (θ_1, θ_2) induce a unique pair of CMFs (H_1, H_2). Together, these two steps define a mapping from the space of standards into itself. Finally, we show that there exists a pair (θ_1^*, θ_2^*) that constitutes a fixed point of the system. Notice that such a fixed point gives rise to an equilibrium $\{(H_1^*(a), H_2^*(a)), (\theta_1^*, \theta_2^*)\}$.

Standards Conditional on Entry

Using the market-clearing condition (1), our first lemma shows that, for a given CMF of abilities H_i, a contest's standard θ_i is uniquely determined.

Lemma 1 *For every H_i, there exists a unique standard θ_i that clears the market for prizes in Contest i.*

From the market-clearing condition (1) it is immediate that, all else equal, standards are higher when prizes are scarcer. By contrast, conditional on H_i, neither w_i nor v_i have any influence on θ_i. The reason is that, in this version of the model, "effort" is equal to ability and, hence, exogenous.

Entry Conditional on Standards

We now derive the unique pair of CMFs (H_1, H_2) that results from standards (θ_1, θ_2). For given (θ_1, θ_2), an agent of ability a enters Contest 1 if and only if

$$\delta \leq \pi_1(a, \theta_2) - \pi_2(a, \theta_1) \ .$$

[2]Notice that the analysis remains unchanged if agents choose their contest sequentially. The reason is that, due to the atomicity of agents, 'unilateral' deviations do not affect the payoffs of other agents. Hence, any Bayesian Nash equilibrium of the simultaneous game corresponds to a perfect Bayesian equilibrium of the sequential game, and vice versa. For the same reason, we could allow agents to switch contests upon observing the contest choices—and even performance evaluations—of other agents. What we cannot allow for is switching upon observing one's *own* performance evaluation.

Hence, the probability, $\Pr i\,(a)$, that the agent enters Contest $i \in \{1, 2\}$ is

$$\Pr 1\,(a) = \Gamma\left(\frac{\pi_1 - \pi_2 - \tau}{\rho}\right) = 1 - \Pr 2\,(a) \ .$$

Next, notice that the MDF h_i is then given by

$$h_i\,(a, \theta_1, \theta_2) = g\,(a) \Pr i\,(a) \ . \tag{2}$$

Finally, the uniquely determined CMF $H_i\,(a)$ is found by integrating h_i up to a.

Fixed Point

The previous steps define a function, ξ, from the space of standards $[-\infty, \infty) \times [-\infty, \infty)$ into itself. Specifically, each pair of standards (θ_1, θ_2) gives rise to a unique pair of CMFs (H_1, H_2) according to the integral of equation (2). In turn, each pair of CMFs (H_1, H_2) gives rise to a unique pair of standards (θ_1, θ_2) according to Lemma (1). Moreover, it is easily verified that these mappings are continuous. Finally, notice that the function ξ is bounded from above. To see this, observe that θ_i takes on its largest and finite value when all agents enter Contest i. We may conclude that ξ is a continuous function on a compact space. Brouwer's fixed-point theorem then implies that ξ has a fixed point, which we denote by (θ_1^*, θ_2^*). In turn, standards (θ_1^*, θ_2^*) induce a pair of (internally consistent) CMFs (H_1^*, H_2^*). Hence, we have shown:

Proposition 1 *Equilibrium exists.*

A *symmetric baseline* refers to a situation where the values of the structural parameters w, m, v, and σ are the same in both contests and, on average, the two contests are equally attractive in non-pecuniary terms, i.e., $\tau = 0$. The next proposition shows that, in that case, equilibrium is unique and takes on a particularly simple form.

Proposition 2 *In a symmetric baseline, equilibrium is unique. Standards are the same in both contests and 50% of every ability type enter each contest.*

The following example illustrates the workings of the model.[3]

[3]Mathematica code implementing the examples in this paper is available from the authors upon request.

Example 1 *Suppose ability is Standard Normally distributed, differences in non-pecuniary payoffs are* $\delta \sim N(\tau = .05, \rho = .05)$*, and noise in performance evaluation is* $\varepsilon_i \sim \mathit{Logistic}(0, \sigma_i)$*,* $i \in \{1, 2\}$*.*[4] *Let* $(w_1, w_2) = (1.1, 1)$*,* $(m_1, m_2) = (.1, .2)$*,* $(v_1, v_2) = (1, 1.1)$*, and* $(\sigma_1, \sigma_2) = (.6, 1)$*. That is, Contest 1 is more meritocratic than Contest 2 and pays a 10% higher show-up fee. However, Contest 2 offers twice as many prizes and their value is 10% higher. Moreover, on average, Contest 2 is somewhat more attractive in non-pecuniary terms.*

1. *For these parameter values, equilibrium standards are* $(\theta_1^*, \theta_2^*) = (1.04, 1.02)$*, and the fraction of the population entering each contest is* $(\Pr 1, \Pr 2) = (.24, .76)$*. Figure 1(a) depicts the probability* $\Pr 1(a)$ *of entering Contest 1 as a function of ability. The figure shows that selection is highly non-monotonic, with two interior extrema. The resulting PDFs,* $g_i(a)$*, are given in Figure 1(b). Notice that the distribution of abilities in Contest 1 is bimodal. That is, Contest 1 attracts both the best and the worst. Average abilities are* $(E_1[a], E_2[a]) = (.44, -.14)$*. Hence, average ability is higher in the contest offering fewer and lower-value prizes.*

2. *Now reduce* ρ *to* $.0005$*. This means that there is virtually no heterogeneity in how agents perceive the two contests in non-pecuniary terms. As a result, agents with the same ability almost all enter the same contest, such that selection is essentially deterministic. This is illustrated in Figure 1(c). Figure 1(d) depicts the resulting ability distributions in the two contests. Standards are* $(\theta_1^*, \theta_2^*) = (1.057, 1.063)$*, while* $(\Pr 1, \Pr 2) = (.18, .82)$ *and* $(E_1[a], E_2[a]) = (.85, -.19)$*.*

3. *Finally, suppose* ρ *is very large; say,* 10^4*. In that case, the extreme dispersion of non-pecuniary payoffs dominates all other considerations. As a result, selection is virtually indistinguishable from that in a symmetric baseline, with approximately 50% of every ability type entering each contest.*

In Example 1, multiple forces are at play simultaneously, resulting in the rather complex selection behavior of Figure 1. In the next section we disentangle these forces. However, before proceeding, we may already dispense with one of the model parameters by observing

[4] In anticipation of revisiting the current example in the model with endogenous effort, we assume that noise is Logistic rather than Normal. Normal noise does not materially change the example. However, in the endogenous-effort model, the second-order condition for optimal effort is more easily satisfied with Logistic than with Normal noise.

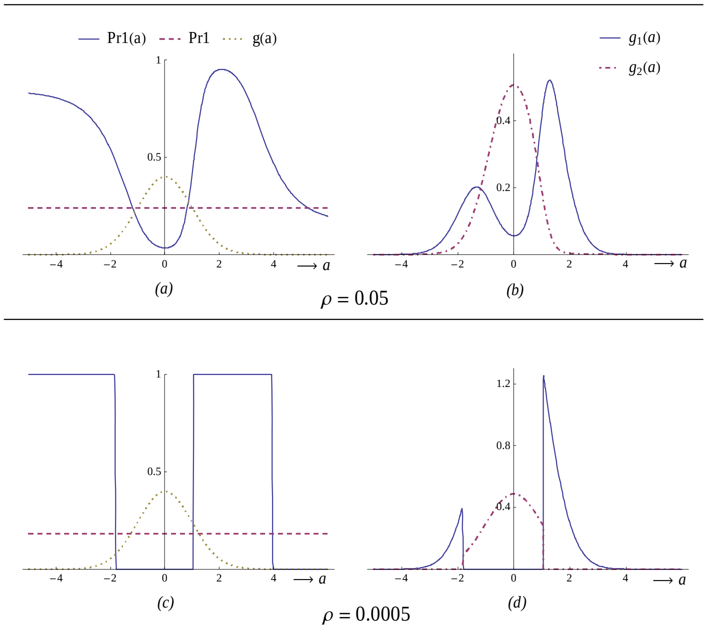

Figure 1: For Example 1, panels *(a)* and *(c)* depict the probability of entering Contest 1 as a function of ability when $\rho = .05$ and $\rho = .0005$, respectively. The resulting ability distributions are given in panels *(b)* and *(d)*.

that $\tau \neq 0$ is isomorphic to a difference in show-up fees, w. To see this, observe that

$$\Pr 1\,(a) = \Gamma\left\{\frac{1}{\rho}\left[w_1 - w_2 - \tau + v_1 \bar{F}\left(\frac{\theta_1 - a}{\sigma_1}\right) - v_2 \bar{F}\left(\frac{\theta_2 - a}{\sigma_1}\right)\right]\right\}\ .$$

Since only the net of $w_1 - w_2 - \tau$ figures in this expression, in the remainder of the paper we normalize τ to zero and incorporate into w_2 any expected difference in non-pecuniary payoffs across contests.

4 Selection

In this section we study the selection effects of differences in structural parameters across contests. To isolate the effect of each parameter, initially, we analyze contests that are identical in all respects save one. Subsequently, we allow contests to differ in multiple dimensions.

Before proceeding, we need to distinguish between two cases. When one contest is overwhelmingly more attractive than the other, the less attractive contest may obtain so few entrants that the number of prizes, m_i, exceeds the number of contestants, $\Pr i$. (See Appendix B for details.) In that case, all entrants into the less attractive contest win a prize, and we say that the contest is *uncompetitive*.[5] Sorting takes a particularly simple form:

Proposition 3 *When one contest is uncompetitive, the probability of selecting into the competitive contest is strictly increasing in ability.*

When $\rho \to 0$, sorting becomes deterministic. Agents enter the competitive contest iff their ability exceeds some threshold $\grave{a} \in \mathbb{R}$.

To see why agents of higher ability increasingly favor the competitive contest recall that $\Pr 1\,(a) = \Gamma\left[\frac{\pi_1^*(a) - \pi_2^*(a)}{\rho}\right]$. When Contest 2 (say) is uncompetitive, $\theta_2^* = -\infty$ and the pecuniary payoff difference reduces to

$$\pi_1^*\,(a, \theta_1^*) - \pi_2^*\,(a, -\infty) = w_1 - w_2 - v_2 + v_1 \bar{F}\left(\frac{\theta_1^* - a}{\sigma_1}\right) .$$

Ability affects payoffs only through the chance of winning in Contest 1, $\bar{F}\left(\frac{\theta_1^* - a}{\sigma_1}\right)$, which is strictly increasing in a. Therefore, $\Pr 1\,(a)$ is also increasing. When $\rho \to 0$ the effect of non-pecuniary preferences vanishes, making the sign of $\pi_1^*\,(a) - \pi_2^*\,(a)$ the sole selection criterion. As a result, $\Pr 1\,(a)$ becomes a step function and selection deterministic.

Regardless of ability, an agent's pecuniary payoff in the uncompetitive contest is $w_i + v_i$. Hence, the uncompetitive case is isomorphic to a selection model with a single competitive contest and a fixed outside option. We may conclude:

Corollary 1 *In a selection model with a single competitive contest and a fixed outside option, the probability of entering the contest is strictly increasing in ability.*

The *competitive* case, and the main focus of our analysis, occurs when the number of entrants into each contest exceeds the number of prizes on offer. The following proposition shows that this case pertains in and around symmetric baselines.

Proposition 4 *Both contests are competitive in a symmetric baseline and in a neighborhood of structural parameters around it. Moreover, this competitive region remains non-degenerate when $\rho \to 0$.*

[5] Notice that at most one contest is uncompetitive, since the population has unit mass and $m_1 + m_2 < 1$.

In a symmetric baseline, the two contests are equally attractive in pecuniary terms. As a result, 50% of each ability type enter each contest and, since $m_1 = m_2 < \frac{1}{2}$, both contests are competitive. Proposition 4 shows that the competitive case extends beyond symmetric baselines, provided the structural parameters in the two contests are not too far apart.

The remainder of the paper focuses on the competitive case and, if necessary, constrains the parameter space accordingly. In some cases, as when contests only differ in meritocracy, no such constraints are required. (See Lemma 17 in Appendix B.) In other cases, as when contests differ in prize values or show-up fees, the structural parameters of the two contests cannot be too far apart. While we do not repeat this condition at the beginning of each formal result, it should be understood that, from hereon, both contests are assumed to be competitive.

4.1 Contests Differing in One Dimension

In this section we study the selection effects of each structural parameter in isolation. To do so, we assume that contests are identical in all dimensions save one.

Show-Up Fees

In professional sports, athletes sometimes have to choose between tournaments offering different show-up fees. Similarly, entry fees (i.e., negative show-up fees) may also vary. For example, Formula 1 auto racing requires spending tens of millions of dollars in fixed costs, while Formula 3 is considerably cheaper.

To study the selection effects of differences in show-up fees, suppose that the two contests are identical in all other dimensions. When w_1 is so much larger than w_2 that Contest 2 is uncompetitive, Contest 1 benefits from positive selection (see Proposition 3 above). Selection is more nuanced when the difference is more moderate, such that both contests are competitive. To see this, start from a situation where the two contests are identical, and suppose that Contest 1 raises its show-up fee. This makes Contest 1 more attractive to agents of all abilities, who now enter in larger numbers. For both markets to clear again, Contest 1's equilibrium standard must rise and Contest 2's must fall. Since standards have risen in tandem with show-up fees, agents now face a clear trade-off: the higher show-up fee in Contest 1 ("the big pond") must be weighed against the lower standard in Contest 2 ("the small pond").

A common intuition for the ponds dilemma is that only the most able should enter the big pond—"if you can't stand the heat, stay out of the kitchen!" However, while it is true that the most able suffer little from heightened competition, so too do the least able. For both types, a difference in standards is of little import because only extremely unlikely realizations of ε_i affect their almost pre-ordained success or failure. Hence, agents of extreme ability (both high *and* low) tend to opt for the contest with the higher show-up fee—i.e., the big pond. Not so for agents of intermediate ability, whose chances of success are noticeably hurt by a higher standard. They tend to opt for the contest with the lower show-up fee—i.e., the small pond. This is illustrated in Figure 2(a), which depicts the propensity to enter the big pond as a function of ability.

To analyze the situation more formally, suppose that $w_1 > w_2$ while the contests are otherwise identical. The pecuniary payoff difference is given by

$$\pi_1^* - \pi_2^* = w_1 - w_2 + \left[\bar{F}\left(\frac{\theta_1^* - a}{\sigma}\right) - \bar{F}\left(\frac{\theta_2^* - a}{\sigma}\right)\right] v \ . \tag{3}$$

The expression in (3) implies that $1/2 < \lim_{|a|\to\infty} \Pr 1(a) = \Gamma\left(\frac{w_1 - w_2}{\rho}\right) < 1$. This reflects the attractiveness of the high show-up fee contest for agents of extreme ability.

The derivative of $\pi_1^* - \pi_2^*$ with respect to ability may be written as

$$\frac{d\left(\pi_1^* - \pi_2^*\right)}{da} = \frac{v}{\sigma} f\left(\frac{\theta_2^* - a}{\sigma}\right)\left[l(a) - 1\right] \ . \tag{4}$$

Here, $l(a) \equiv f\left(\frac{\theta_1 - a}{\sigma}\right) / f\left(\frac{\theta_2 - a}{\sigma}\right)$ is the likelihood ratio of an agent of ability a just meeting the standard in each contest. Let $\underline{l} \equiv \inf_{a\in\mathbb{R}} l(a)$ and $\bar{l} \equiv \sup_{a\in\mathbb{R}} l(a)$. The following lemma establishes that the likelihood ratio is strictly monotone and takes on values on either side of 1.

Lemma 2 *The likelihood ratio, $l(a)$, satisfies:*

1. $l'(a) \gtreqless 0$ *iff* $\theta_1 \gtreqless \theta_2$.

2. *For* $\theta_1 \neq \theta_2$, $\underline{l} < 1 < \bar{l}$.

If $w_1 > w_2$, then $\theta_1^* > \theta_2^*$. In that case, Lemma 2 implies that $l(a)$ is strictly increasing in ability and crosses 1 from below. It now follows from equation (4) that $\pi_1^* - \pi_2^*$ is U-shaped in a. By monotonicity of Γ, the same holds for $\Pr 1(a)$.

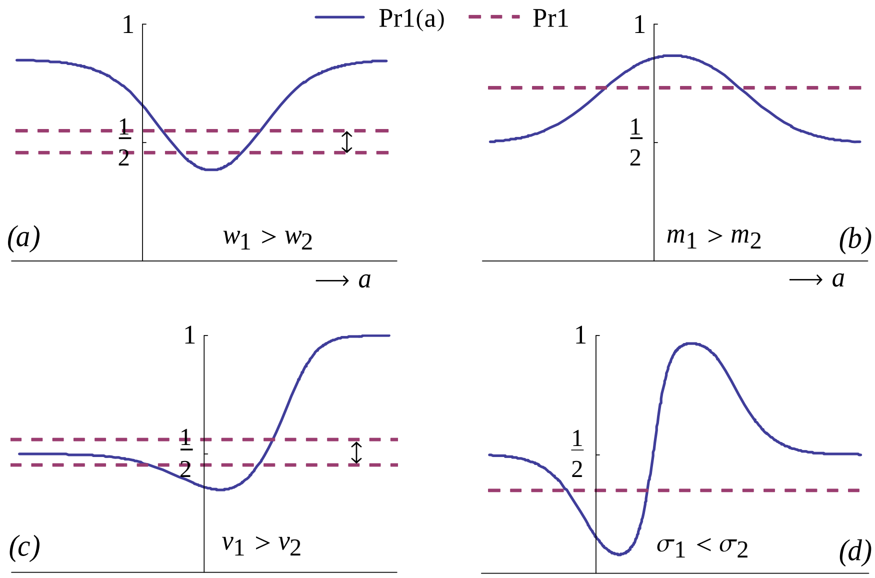

Figure 2: Probabilty of entering Contest 1 when the contests differ in one dimension only.

The following proposition summarizes our observations. It also shows that, despite its higher show-up fee, Contest 1 may attract only a minority of agents.

Proposition 5 *A higher show-up fee disproportionately attracts the best and the worst, while repelling the middle.*

Formally, let $w_1 > w_2$ while the contests are otherwise identical. In equilibrium: 1) $\Pr 1(a)$ is U-shaped in ability; 2) $1/2 < \lim_{|a|\to\infty} \Pr 1(a) = \Gamma\left(\frac{w_1 - w_2}{\rho}\right) < 1$; 3) $\theta_1^* > \theta_2^*$; and 4) $\Pr 1$ can be greater or smaller than $1/2$.

Because of its higher standard and greater show-up fee, we have referred to Contest 1 as the big pond. Notice, however, that the "big" pond may, in fact, be smaller than the "small" pond. That is, the high-w contest may attract fewer contestants than the low-w contest. The driving factor is the mass of middling sorts, who are repelled by the big pond's higher standard. The identity and size of this group depends on the number of prizes on offer and the shape of the ability distribution in the population as a whole. The upshot is that a contest may well raise its show-up fee, only to see participation decline.

The U-shapedness of $\Pr 1(a)$ suggests that ability is more dispersed in Contest 1 than in Contest 2. However, formalizing this intuitive idea is not that straightforward, since the ability distributions in the two contests cannot be ranked by second-order stochastic dominance (SOSD). Such a ranking quickly runs into difficulties because there is no consistent ranking of average abilities across contests. Since SOSD does not hold, we introduce the concept of *single-crossing dispersion* (Ganuza and Penalva, 2007) to formalize the idea that higher show-up fees produce a more dispersed talent distribution.

Definition 1 *A RV with CDF* $J_1(a)$ *is more* single-crossing (SC) dispersed *than a RV with CDF* $J_2(a)$ *iff there exists a unique* $a' \in \mathbb{R}$ *such that* $J_1(a') = J_2(a')$ *and,* $\forall a \overset{(>)}{<} a'$, $J_1(a) \overset{(<)}{>} J_2(a)$.

For example, consider two RVs drawn from Normal distributions with different means and different variances. It may be verified that, regardless of the means, the distribution with the higher variance is more SC dispersed than the distribution with the lower variance.

In the next proposition we show that, irrespective of the ranking of average talent, ability in the high-w contest is more SC dispersed than in the low-w contest.[6]

Proposition 6 *Let* $w_1 > w_2$ *while the contests are otherwise identical. Provided* ρ *is not too large, abilities in Contest 1 are more SC dispersed than in Contest 2.*

Proposition 6 shows that, by attracting extreme types and repelling middling sorts, the contest with the higher show-up fee attracts the more diverse talent pool. This notion is most cleanly captured in the limit when non-pecuniary considerations vanish. Such an analysis is also of independent interest, since non-pecuniary payoffs are mostly absent from the extant literature. Formally, we study a convergent (sub)sequence of equilibria for $\rho \to 0$. Our main finding is that selection is sharpened in the limit, leaving a "hole" in the ability distribution of the contest offering the higher show-up fee.[7]

Proposition 7 *Let* $w_1 > w_2$ *while the contests are otherwise identical. When* $\rho \to 0$*, extreme ability types enter Contest 1, while middling sorts enter Contest 2.*

[6] For arbitrary sets of probability distributions, the concept of SC dispersion has the serious drawback that it may violate transitivity. This problem does not arise in our setting, however. To see this, fix a set of contests whose structural parameters are identical save for their show-up fees. Proposition 6 implies that the set can be completely ordered on the basis of SC dispersion ($\geq_{SC}$). Specifically, under endogenous sorting between contests (i, j), $G_i(\cdot) \geq_{SC} G_j(\cdot)$ iff $w_i \geq w_j$.

[7] Recall that we have constrained the parameter space such that both contests are competitive in equilibrium. For limit results like the one in Proposition 7, we require that the full sequence for $\rho \to 0$ is competitive. As before, this amounts to the assumption that w_1 and w_2 are not too far apart.

Formally, for any convergent (sub)sequence of equilibria, there exist a pair $\{\underline{a}, \bar{a}\} \in \mathbb{R}^2$, $\underline{a} < \bar{a}$, *such that*

$$\lim_{\rho \to 0} \Pr 1(a) = \begin{cases} 0 & \textit{if} \quad \underline{a} < a < \bar{a} \\ 1 & \textit{otherwise} \end{cases} .$$

Number of Prizes

Next, we study the effect of the number of prizes on selection. While it is easy to see that offering more prizes increases entry, the selection effects are less clear. Who are these new entrants? Because contestants do not care about the number of prizes *per se*, offering more prizes only has an indirect effect, namely, a reduction in standards. This is valuable regardless of ability, though more so for intermediate types, whose chances of winning improve the most. Hence, an increase in the number of prizes, m_i, unambiguously raises entry of *all* abilities into Contest i, but especially of middling sorts. The resulting selection pattern is depicted in Figure 2(b).

More formally, suppose that $m_1 > m_2$ while the contests are otherwise identical. It is easily verified that $\lim_{|a| \to \infty} \Pr 1(a) = \Gamma(0) = 1/2$. This reflects that agents of extreme ability do not care about standards. The derivative $d(\pi_1^* - \pi_2^*)/da$ is the same as in the show-up fee case and given in equation (4). However, because the order of standards is the reverse (i.e., $\theta_1^* < \theta_2^*$), $\pi_1^* - \pi_2^*$ and $\Pr 1(a)$ are inverse-U-shaped rather than U-shaped. The following proposition summarizes these observations.

Proposition 8 *Offering more prizes attracts all types, but disproportionately those of middling ability.*

Formally, let $m_1 > m_2$ *while the contests are otherwise identical. In equilibrium: 1)* $\Pr 1(a)$ *is inverse-U-shaped; 2)* $\lim_{|a| \to \infty} \Pr 1(a) = \frac{1}{2}$*; 3)* $\theta_1^* < \theta_2^*$*; and 4)* $\forall a$, $\Pr 1(a) > \frac{1}{2}$.

Owing to its higher standard, the contest offering fewer prizes could be regarded as the "big pond." Notice, however, that it does not offer higher rewards in compensation. As a consequence, this "big" pond repels agents of all types, but to differing degrees depending on their relative chances of success in the two contests.

As was the case for differences in w, the ability distributions in the two contests cannot be ranked by SOSD because expectations cannot be ranked. However, once again, we can order abilities in terms of SC dispersion.

Proposition 9 *Let $m_1 > m_2$ while the contests are otherwise identical. Provided ρ is not too large, abilities in Contest 1 are less SC dispersed than in Contest 2.*

Finally, we turn to the limit case as non-pecuniary considerations vanish. When contests differed in show-up fees, $\rho \to 0$ had the effect of "purifying" selection. That is, each ability type selected a particular contest with probability one. Our next proposition shows that, when contests differ in the number of prizes, entry decisions remain strictly stochastic.

Proposition 10 *Let $m_1 > m_2$ while the contests are otherwise identical. When $\rho \to 0$ standards in the two contests converge. Selection remains strictly stochastic and $\Pr 1(a)$ remains inverse-U-shaped.*

Formally, for any convergent (sub)sequence of equilibria, $\lim_{\rho\to 0} \theta_1^* = \lim_{\rho\to 0} \theta_2^* = \theta^*$, and

$$\frac{1}{2} < \lim_{\rho\to 0} \Pr 1(a) = \Gamma\left[c\frac{v}{\sigma} f\left(\frac{\theta^* - a}{\sigma}\right)\right] < 1 \ ,$$

where $c > 0$ is a constant.

Proposition 10 is driven by a "no-arbitrage," which implies that standards in the two contests must be equal in the limit. Otherwise, all agents would choose the contest with the lower standard, which is inconsistent with it having the lower standard in the first place. Notice that when both contests have the same standard, there is no particular reason for agents with the same ability to enter the same contest. When $\rho \to 0$, a particular "mixed" entry pattern is selected among a continuum of patterns consistent with equal standards.

Value of Prizes

The most canonical version of the ponds dilemma arises when contests differ in prize values. Naturally, higher prizes lead to an inflow of contestants and, hence, to a higher performance standard. Thus, as was the case for show-up fees, contestants face a trade-off between payoffs and standards. However, in this case, both costs and benefits are ability-dependent. While show-up fees are equally valuable to all, the expected benefit of a higher prize is proportional to an agent's probability of winning. Therefore, all else equal, a higher prize in Contest 1 makes $\Pr 1(a)$ strictly increasing in a. The cost of a higher standard continues to be greatest for intermediate types. This makes $\Pr 1(a)$ U-shaped. Together, the two effects imply that $\Pr 1(a)$ is either increasing or U-shaped, with the right asymptote of $\Pr 1(a)$ always exceeding the left.

To examine differences in prize values more formally, suppose the two contests are identical save for the value of their prizes. Then, $\lim_{a\to\infty} \pi_1^* - \pi_2^* = v_1 - v_2$, while $\lim_{-a\to\infty} \pi_1^* - \pi_2^* = 0$. This reflects the strong attraction of higher prizes on high types, and the indifference towards them of low types.

Calculating the derivative $d(\pi_1^* - \pi_2^*)/da$ and rearranging we find

$$\frac{d(\pi_1^* - \pi_2^*)}{da} = \frac{v_1}{\sigma} f\left(\frac{\theta_2^* - a}{\sigma}\right)\left[l(a) - \frac{v_2}{v_1}\right] . \tag{5}$$

From Lemma 2 we know that $l(a)$ is strictly monotone and takes on values on either side of 1. When contests only differed in show-up fees or number of prizes, this was enough to establish single-peakedness of the payoff difference. Here, this is no longer the case because the sign of (5) also depends on the prize ratio v_2/v_1. When contests differ in prize values, we need to distinguish between noise distributions with bounded and unbounded likelihood ratios. We say that $l(a)$ is bounded if $\underline{l} > 0$ and $\overline{l} < \infty$. For example, the Logistic distribution falls into this category, since its likelihood ratio runs from $e^{-\frac{1}{\sigma}}$ to $e^{\frac{1}{\sigma}}$. We say that $l(a)$ is unbounded if $\underline{l} = 0$ and $\overline{l} = \infty$.[8] This case pertains to, e.g., the Normal distribution.

Consider the expression for $d(\pi_1^* - \pi_2^*)/da$ given in equation (5). Monotone selection requires that $v_2/v_1 \notin (\underline{l}, \overline{l})$—i.e., $l(a)$ is bounded *and* the prize ratio is sufficiently lopsided. Alternatively, when $v_2/v_1 \in (\underline{l}, \overline{l})$—i.e., $l(a)$ is unbounded *or* the prize ratio is sufficiently close to 1—then $d(\pi_1^* - \pi_2^*)/da$ changes sign exactly once, which makes $\Pr 1(a)$ is single-peaked. Proposition 11 formalizes these observations.

Proposition 11 *Higher prizes most strongly attract the best-and-the-brightest while not affecting entry decisions of the worst.*

Formally, let $v_i > v_j$ while the contests are otherwise identical. In equilibrium:

1. $\theta_i^* > \theta_j^*$. *2.* $\lim_{a\to-\infty} \Pr 1(a) = 1/2$ *and* $\lim_{a\to\infty} \Pr 1(a) = \Gamma\left(\frac{v_1 - v_2}{\rho}\right)$.

3. If $v_2/v_1 \in (\underline{l}, \overline{l})$ *then: i)* $\exists \hat{a} \in \mathbb{R}$ *such that* $\Pr i(a) \overset{(<)}{>} 1/2$ *iff* $a \overset{(<)}{>} \hat{a}$*; ii)* $\Pr i(a)$ *is single-peaked on* $(-\infty, \hat{a})$*, attaining a minimum; iii)* $\Pr i(a)$ *is strictly increasing on* $[\hat{a}, \infty)$*; and iv)* $\Pr i$ *can be greater or smaller than* $1/2$.

[8] For ease of exposition, our definitions ignore the "semi-bounded" cases, where $\underline{l} > 0$ and $\overline{l} = \infty$ or vice versa. For example, the Extreme Value distribution fall into this category. These cases are handled like the bounded or the unbounded case, depending on whether v_2/v_1 is smaller or greater than 1.

4. If $v_2/v_1 \notin (\underline{l}, \bar{l})$ then, $\forall a \in \mathbb{R}$, $\Pr i\,(a) > 1/2$ and strictly increasing.

Figure 2(c) depicts selection behavior when $v_2/v_1 \in (\underline{l}, \bar{l})$. As always, those of extreme ability are unaffected by the difference in standards. Yet, entry decisions differ markedly between the top and the bottom. For those at the bottom, prize differences are irrelevant because prizes are unattainable. Therefore, they perceive the two contests as equally attractive, leading to a 50-50 split. Those at the top are virtually guaranteed to win a prize in either contest. Therefore, they are much more likely to opt for high-prize Contest 1, i.e., the big pond. Still, selection into the big pond fails to be monotone. As with show-up fees, the ratio of success probabilities strongly favors the small pond for middling sorts, and this consideration dominates their entry decisions provided that $v_2/v_1 \in (\underline{l}, \bar{l})$. The key insight is that, regardless of whether the riches in the big pond come in the form of contingent prizes or non-contingent show-up fees, generally, selection is non-monotone in ability.

Figure 2(c) illustrates that agents are more likely to enter the high-prize contest than the low-prize contest iff their ability exceeds some threshold, $\hat{a}$. Hence, it might seem that high types must be overrepresented in the high-prize contest and low types in the low-prize contest. However, this ignores the base rate of selection into the two contests. Relative to its population share, a type is overrepresented in Contest i iff its propensity to enter, $\Pr i\,(a)$, is greater than the average propensity, $\Pr i$. Hence, high types are indeed overrepresented in high-prize Contest 1. However, if $\Pr 1 < 1/2$, so are very low types since they enter both contests with approximately equal probability.

The potential overrepresentation of low types in the high-prize contest implies that, for $v_2/v_1 \in (\underline{l}, \bar{l})$, ability distributions in the two contests cannot be ranked by first-order stochastic dominance (FOSD). In fact, average ability in the high-prize contest may well be lower than in the low-prize contest. This is illustrated in the following example.

Example 2 *Let $v_1 = 1.1 > 1 = v_2$. Suppose $a \sim N(0, 1)$, $\delta \sim N(0, .05)$, $\varepsilon_i \sim Logistic\,(0, .3)$, $w_i = 1$, and $m_i = .05$, $i \in \{1, 2\}$. Then, $E_1[a] = -.023 < .020 = E_2[a]$. Hence, the high-prize contest attracts individuals of lower average ability.*

Example 2 shows that a contest may well raise the value of its prizes, only to see the average ability of contestants fall. However, for small ρ, it is still true that a random individual with ability greater than $\hat{a}$ is much more likely to enter the high-prize contest, while a random individual with ability smaller than $\hat{a}$ is much more likely to enter the low-prize contest. One formalization of this idea is to compare ability quantiles across contests. For example, we can ask how the ability of the 1st percentile in the high-prize contest compares to the ability of the 99th percentile in the low-prize contest. As we show next, for small ρ, the former exceeds the latter with probability one. In fact, Proposition 12 generalizes this idea to arbitrary quantiles.

Proposition 12 *Let $v_1 > v_2$ while the contests are otherwise identical. For any $0 < p_1, p_2 < 1$, there exists a $\bar{\rho} > 0$ such that for all $0 \leq \rho < \bar{\rho}$ the following holds: with probability 1, an agent at the p_1-th ability-quantile in Contest 1 has strictly greater ability than an agent at the p_2-th ability-quantile in Contest 2.*

Finally, we study selection as non-pecuniary considerations vanish. Because $\pi_1^* - \pi_2^*$ single-crosses zero, selection becomes "perfect" in the limit. That is, agents enter the high-prize contest iff they are of high ability. Formally,

Proposition 13 *Let $v_1 > v_2$ while the contests are otherwise identical. When $\rho \to 0$, agents enter high-prize Contest 1 iff their ability exceeds a threshold level.*

Formally, for any convergent (sub)sequence of equilibria, there exists an $\hat{a} \in \mathbb{R}$ such that

$$\lim_{\rho \to 0} \Pr 1(a) = \begin{cases} 0 & \text{if} \quad a < \hat{a} \\ 1 & \text{otherwise} \end{cases}.$$

Proposition 13 shows that, when pecuniary considerations come to the fore, selection becomes deterministic. Moreover, it has the intuitive property that high types are attracted to the high-prize contest and low types to the low-prize contest. Perhaps surprisingly, this does not depend on whether the likelihood ratio is bounded. On the basis of Proposition 11 one might have conjectured that, for bounded $l(a)$ and lopsided v_2/v_1, all types enter the high-prize contest in the limit. This does not happen because the low-prize contest always becomes uncompetitive when $v_2/v_1 \notin (\underline{l}, \bar{l})$ and $\rho \to 0$. And very low types prefer to win the smaller prize for sure rather than opt for a negligible chance of winning the larger prize. By contrast, above some ability threshold, the chance of succeeding in the competitive high-prize contest is sufficiently large to justify entry.

Meritocracy

Agents sometimes have to choose between contests that differ in meritocracy or discriminatoriness. For instance, an architectural firm may enter a design contest for a shopping mall, where the winner is determined largely on the basis of price. Alternatively, it may participate in a contest for a museum, library, or other kind of public building, where subjective perceptions of beauty, as well as fickle politics, play an important role. Similarly, lawyers can join the public sector, where performance measurement is notoriously noisy, or the private sector, where performance—often in the form of client billing—is more readily measured. And managers can choose between closely-held family firms with relatively primitive and subjective forms of performance evaluation, or large public companies with more objective procedures.

We now examine how such differences in the noisiness of performance evaluation drive selection. For risk-neutral agents, measurement noise might seem irrelevant because it does not affect expected performance. The flaw in this reasoning is that measurement errors have asymmetric effects, which depend, moreover, on an agent's ability relative to the standard. When an agent's ability falls below the standard, he can only succeed if he gets a "lucky break," i.e., a positive realization of ε_i. When his ability exceeds the standard, he can only fail if he suffers an "unlucky break," i.e., a negative realization of ε_i. In the former situation, the agent seeks out noisy measurement, since therein lies his only path to success. In the latter, he avoids noisy measurement, since it constitutes his only possible undoing.

Even in this case, selection is not monotone, however. To see why, recall that individuals of extreme ability—both high and low—are essentially unaffected by measurement noise, since only extremely unlikely realizations of ε_i can alter their almost pre-ordained success or failure. As the contests are identical in all other respects, these types enter each contest with (almost) equal probability. Hence, meritocracy does produce favorable selection, but with waning power in the tails.

To examine differences in meritocracy more formally, suppose the two contests are identical save for $\sigma_1 < \sigma_2$. That is, Contest 1 is more meritocratic than Contest 2. The payoff difference is then given by

$$\pi_1^* - \pi_2^* = \left[\bar{F}\left(\frac{\theta_1^* - a}{\sigma_1}\right) - \bar{F}\left(\frac{\theta_2^* - a}{\sigma_2}\right)\right] v \ . \tag{6}$$

Equation (6) implies that: 1) $\lim_{|a|\to\infty} \pi_1^* - \pi_2^* = 0$; and 2) $\pi_1^* - \pi_2^*$ single-crosses zero from below at $\tilde{a} \equiv \frac{\sigma_2\theta_1^* - \sigma_1\theta_2^*}{\sigma_2 - \sigma_1}$. Point 1) reflects the indifference of extreme types to measurement noise. Point 2) implies that there is a threshold ability, $\tilde{a}$, such that all agents above the threshold are more likely to enter the more meritocratic contest, while all agents below the threshold are more likely to enter the less meritocratic contest. At $\tilde{a}$, an agent is equally likely to win a prize in either contest.

Differentiating $\pi_1^* - \pi_2^*$ with respect to a and rewriting we get

$$\frac{d\left(\pi_1^* - \pi_2^*\right)}{da} = \frac{v}{\sigma_1} f\left(\frac{\theta_2^* - a}{\sigma_2}\right)\left[\lambda\left(a\right) - \frac{\sigma_1}{\sigma_2}\right] . \tag{7}$$

Here, $\lambda\left(a\right) \equiv f\left(\frac{\theta_1^* - a}{\sigma_1}\right)/f\left(\frac{\theta_2^* - a}{\sigma_2}\right)$ is the analogue of $l\left(a\right)$ for contests that differ in meritocracy. However, unlike $l\left(a\right)$, $\lambda\left(a\right)$ is not monotone. To see this, let $\underline{\lambda} \equiv \inf_{a\in\mathbb{R}} \lambda\left(a\right)$ and $\bar{\lambda} \equiv \sup_{a\in\mathbb{R}} \lambda\left(a\right)$. Provided $\theta_1^* \neq \theta_2^*$, single-peakedness of f around zero and $\sigma_1 < \sigma_2$ imply that $\bar{\lambda} > \lambda\left(\theta_1^*\right) > 1$, while strict log-concavity of f implies that $\lim_{|a|\to\infty} \lambda\left(a\right) = 0 = \underline{\lambda}$. (See Lemma 7 in Appendix A for a proof.) Hence, $\lambda\left(a\right)$ takes on at least one interior extremum.

When $\lambda\left(a\right)$ is single-peaked, equation (7) implies that $\pi_1^* - \pi_2^*$ takes on two extrema: a minimum to the left of $\tilde{a}$, and a maximum to the right of $\tilde{a}$. However, in principle, $\lambda\left(a\right)$ can take on any number extrema, while $\pi_1^* - \pi_2^*$ can take on up to twice the number of extrema of $\lambda\left(a\right)$. The following technical condition rules this out.

Condition 1 $\frac{f''}{f'}/\frac{f'}{f}$ *is strictly increasing in* $|\varepsilon|$ *for* $\varepsilon \neq 0$.

Strict log-concavity of f is equivalent to $\frac{f''}{f'}/\frac{f'}{f} < 1$. Hence, Condition 1 does not imply log-concavity, nor is it implied by it. While we do not have an economic interpretation, to the best of our knowledge, almost all commonly-used, strictly log-concave probability distributions satisfy Condition 1, including the Normal, Logistic, Extreme Value, and Gumbel distributions.[9] As proved in the next lemma, Condition 1 ensures that $\lambda\left(a\right)$ is single-peaked.

Lemma 3 *Let* $\sigma_1 < \sigma_2$. *If* f *satisfies Condition 1, then* $\lambda\left(a\right)$ *is single-peaked in* a *and takes on an interior maximum.*

Proposition 14, below, formalizes our observations up to this point. It also shows that standards cannot be ordered, and that the more meritocratic contest is "exclusive."

[9] The only standard distributions we are aware of that do not satisfy Condition 1 are the Laplace, Pareto, and Lognormal distributions. None of these are admissible, however, because they violate strict log-concavity. One way to break Condition 1 while, potentially, still satisfying our other assumptions is to have a single-peaked density with multiple inflection points on each side of the peak.

Proposition 14 *Meritocracy attracts high types and repels low types. However, these selection effects dissipate toward the tails. The majority of the population enters the less meritocratic contest.*

Formally, let $\sigma_1 < \sigma_2$ *while the contests are otherwise identical. In equilibrium: 1)* $\Pr 1(a) \overset{(<)}{>} 1/2$ *iff* $a \overset{(<)}{>} \tilde{a} \equiv \frac{\sigma_2\theta_1^* - \sigma_1\theta_2^*}{\sigma_2 - \sigma_1}$*; 2)* $\lim_{|a|\to\infty} \Pr 1(a) = 1/2$*; 3) Provided* ρ *is not too large,* $\Pr 1 < 1/2$*; 4) Either contest may have the higher standard; 5) If Condition 1 holds,* $\Pr 1(a)$ *is single-peaked on either side of* $\tilde{a}$*.*

Figure 2(d) depicts selection when contests differ in meritocracy. Here, we have assumed that Condition 1 holds, so $\lambda(a)$ is single-peaked. Unlike other structural parameters, a difference in meritocracy does not present agents with a genuine ponds dilemma because rewards are the same in both contests and standards cannot be ranked. Instead, agents' behavior is driven by the ability-dependent attractiveness of (un)lucky breaks.

To see why the standards in the two contests cannot be ranked, notice that most agents need a lucky break when prizes are scarce. This induces the bulk of the population to opt for the noisy contest and, as a result, the less meritocratic contest has the higher standard. On the other hand, when prizes are plentiful, most agents need to avoid an unlucky break. This induces them to opt for the more meritocratic contest, resulting in the opposite ranking of standards.

Deciding which contest to enter is most complicated for types who need a lucky break in one contest but need to avoid a lucky break in the other contest. That is, types $a \in (\min\{\theta_1^*, \theta_2^*\}, \max\{\theta_1^*, \theta_2^*\})$. Their predicament blunts payoff differences and makes selection less pronounced. To see why, suppose the more meritocratic contest also has the higher standard. In that case, the agent needs a lucky break in the more meritocratic contest, while he needs to avoid an unlucky break in the less meritocratic contest. Since neither contest is very likely to produce the desired result, there is little to distinguish between them. Alternatively, when the more meritocratic contest has the lower standard, the agent needs a lucky break in the less meritocratic contest, while he needs to avoid an unlucky break in the more meritocratic contest. Since both contests are quite likely to produce the desired result, again, there is little to distinguish between them. Thus, selection is weak in this region.

Because $\pi_1^* - \pi_2^*$ single-crosses zero, selection becomes "perfect" in the limit for $\rho \to 0$. That is, agents enter the more meritocratic contest iff their ability is greater than $\tilde{a}$. For the same reason, we can once again rank arbitrary ability quantiles across contests, at least for ρ small. We omit formal statements and proofs of these results since they are analogous to the prize values case.

Provided pecuniary motives dominate, Proposition 14 shows that the more meritocratic contest is "exclusive," i.e., it attracts only a minority of the population. The intuition is most easily gleaned from the limit case for $\rho \to 0$. Recall that an agent of ability $\tilde{a}$ is equally likely to win a prize in either contest and that winning probabilities within each contest are strictly increasing in ability. Since selection is "perfect" in the limit, all agents in the more meritocratic contest are more likely to win than all agents in the less meritocratic contest. Hence, for a given mass of contestants, the more meritocratic contest produces more winners than the less meritocratic contest. Because the number of prizes is the same in both contests, the more meritocratic contest must attract fewer entrants.

Together, dissipation of selection power in the tails (i.e., $\lim_{|a|\to\infty} \Pr 1(a) = 1/2$) and "exclusivity" (i.e., $\Pr 1 < 1/2$) have the following rather counterintuitive implication:

Corollary 2 *When pecuniary motives dominate, very low types disproportionately enter the more meritocratic contest.*

Corollary 2 implies that making a contest more meritocratic can cause the average ability of contestants to drop.[10] It also invalidates FOSD.

Recall that $\rho \to 0$ has no effect on sorting in a symmetric baseline: regardless of the magnitude of non-pecuniary payoffs, 50 percent of every ability type enter each contest. By contrast, when one contest is slightly more meritocratic than the other, strong positive selection obtains in the limit: all types above some threshold flock to the more meritocratic contest, while everybody below the threshold shuns it. Hence, whether there is perfect sorting or no sorting at all depends on the order of limits. When pecuniary considerations dominate, this implies that small changes in σ_i away from a symmetric baseline lead to large changes in sorting. The same effect occurs for small changes in the other structural parameters.

Finally, notice that the two key disadvantages of greater meritocracy, i.e., the overrepresentation of very low types and the weak selection of very high types, disappear in the limit

[10]Suppose $a \sim N(0,1)$, $\delta \sim N(0,.05)$, and $\varepsilon_i \sim \mathit{Logistic}(0,\sigma_i)$. Let $w_i = 1$, $m_i = .01$, and $v_i = 1$, $i \in \{1,2\}$, while $(\sigma_1,\sigma_2) = (.3,1)$. Then, $E_1[a] = -0.023 < 0.017 = E_2[a]$—i.e., the more meritocratic contest attracts individuals of lower average ability.

for $\rho \to 0$. In other words, they are purely a product of non-pecuniary considerations. By contrast, the "exclusive" nature of the more meritocratic contest remains.

4.2 Contests Differing in Multiple Dimensions

In practice, contests often differ in multiple dimensions. Think of a programmer with job offers from Microsoft and Facebook. He will have to choose between them on the basis of pay, promotion opportunities, perceived meritocracy, and idiosyncratic preferences for a particular location and firm culture. In this section we characterize selection behavior in such a more general environment. The analysis logically divides into two separate cases, depending on whether the contests are equally meritocratic.

Equally Meritocratic Contests

When the two contests are equally meritocratic (i.e., $\sigma_1 = \sigma_2$), the role of structural parameters in selection is as follows. Show-up fees are the sole pecuniary consideration for very low types. Very high types do not distinguish between show-up fees and prizes. They consider the sum of show-up fees and prize values and pecuniarily prefer whichever contest offers the higher total. When contests are equally meritocratic, differences in prize values also determine the shape of the selection curve in between these extremes. As when contests *only* differ in prize values, $\Pr 1(a)$ is single-peaked in the unbounded likelihood ratio case and monotone in the bounded likelihood ratio case with lopsided v_2/v_1. Whether $\Pr 1(a)$ takes on a minimum or a maximum (is increasing or decreasing, respectively) depends on the ordering of standards. Finally, standards are determined by all structural parameters jointly. The next proposition formalizes these observations.

Proposition 15 *Let $\sigma_1 = \sigma_2$ while other structural parameters are arbitrary. Then $\Pr 1(a)$ is either single-peaked or monotone in ability. Specifically:*

1. $\lim_{a \to -\infty} \Pr 1(a) = \Gamma\left(\frac{w_1 - w_2}{\rho}\right)$ *and* $\lim_{a \to \infty} \Pr 1(a) = \Gamma\left(\frac{w_1 + v_1 - (w_2 + v_2)}{\rho}\right)$.
2. *If $v_2/v_1 \in (\underline{l}, \bar{l})$, then $\Pr 1(a)$ is single-peaked, taking on a minimum iff $\theta_1^* > \theta_2^*$.*
3. *If $v_2/v_1 \notin (\underline{l}, \bar{l})$, then $\Pr 1(a)$ is strictly monotone; it is increasing iff $v_2/v_1 < \underline{l}$.*

Proposition 15 shows that whether $\Pr 1(a)$ takes on a maximum or a minimum when $v_2/v_1 \in (\underline{l}, \bar{l})$ depends on the ranking of standards. Under the presumption that low types

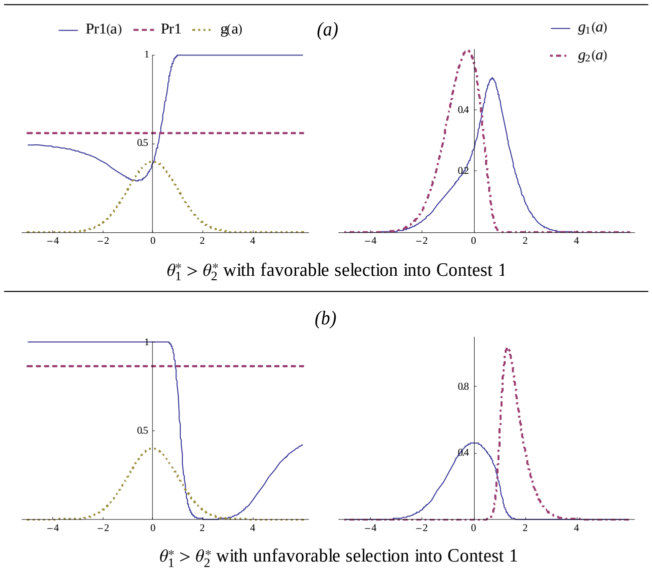

Figure 3: High standards do not ensure favorable selection.

flee higher standards more than high types do, one might conjecture that Contest 1's success in attracting talent depends on the same ranking. The following example shows that this conjecture is false.

Example 3 *Suppose* $a \sim N(0,1)$, $\delta \sim N(0,.05)$, $\varepsilon_i \sim \mathit{Logistic}(0,1)$, $w_i = 1$, $m_i = .1$, $i \in \{1,2\}$, *and* $(v_1, v_2) = (3,1)$. *Then* $\theta_1^* = 2.22 > -.81 = \theta_2^*$ *and selection into Contest 1 is highly favorable (see Figure 3(a)).*

Now change (w_1, w_2) *to* $(2,1)$ *and* (v_1, v_2) *to* $(1,2)$. *Then* $\theta_1^* = 2.01 > .51 = \theta_2^*$ *and selection into Contest 1 is highly unfavorable (see Figure 3(b)).*

In Example 3, Contest 1 consistently has the higher standard, but only for the first set of parameters is selection favorable. This illustrates that the *way* a contest attains its standard matters more than the standard itself. Indeed, for a given number of prizes, a high standard can be the result of attracting a large but undistinguished group of contestants or a smaller but highly talented group. In the first parametrization, Contest 1's higher standard is the result of offering higher prizes. This is associated with positive selection. In the second parametrization, Contest 1 continues to have the higher standard but now achieves this via a higher show-up fee. Indeed, prize values in Contest 1 are now lower than in Contest 2. The higher show-up fee in Contest 1 is especially attractive for extreme types, both high and low. However, for high types, Contest 2 more than compensates for its lower show-up fee by offering higher prizes. As a result, high types are overrepresented in Contest 2 and low types in Contest 1, such that higher standards are now associated with *negative* selection.

Differentially Meritocratic Contests

Now suppose that the two contests also differ in terms of meritocracy, i.e., $\sigma_1 \neq \sigma_2$. First, recall that meritocracy does not affect payoffs and behavior in the tails of the ability distribution. Next, notice that the derivative $d\left(\pi_1^* - \pi_2^*\right)/da$ may be written as

$$\frac{d\left(\pi_1^* - \pi_2^*\right)}{da} = \frac{v_1}{\sigma_1} f\left(\frac{\theta_2^* - a}{\sigma_2}\right)\left[\lambda\left(a\right) - \frac{v_2/v_1}{\sigma_2/\sigma_1}\right] . \tag{8}$$

Let $\sigma_1 < \sigma_2$ and assume that Condition 1 holds. It may then be readily seen from equation (8) that $\Pr 1\left(a\right) = \Gamma\left(\frac{\pi_1^* - \pi_2^*}{\rho}\right)$ is either strictly decreasing in a or takes on two extrema, first reaching a minimum and then a maximum. Hence, provided $\frac{v_2/v_1}{\sigma_2/\sigma_1} < \overline{\lambda}$, $\Pr 1\left(a\right)$ takes on essentially the same shape as when contests *only* differ in meritocracy. The following proposition summarizes these observations.

Proposition 16 *Suppose $\sigma_1 < \sigma_2$ while the other structural parameters are arbitrary. If Condition 1 holds, then $\Pr 1\left(a\right)$ is either strictly decreasing or takes on two extrema, first a minimum and then a maximum. Specifically:*

1. $\lim_{a \to -\infty} \Pr 1\left(a\right) = \Gamma\left(\frac{w_1 - w_2}{\rho}\right)$ *and* $\lim_{a \to \infty} \Pr 1\left(a\right) = \Gamma\left(\frac{w_1 + v_1 - (w_2 + v_2)}{\rho}\right)$.
2. *If $\frac{v_2/v_1}{\sigma_2/\sigma_1} < \overline{\lambda}$, then $\Pr 1\left(a\right)$ has two extrema; a minimum (maximum) at the smaller (larger) value of 'a' solving $\lambda\left(a\right) = \frac{v_2/v_1}{\sigma_2/\sigma_1}$. Otherwise, $\Pr 1\left(a\right)$ is strictly decreasing.*

At the outset of our analysis we presented Example 1. It illustrated that, despite the relative simplicity of our model, selection behavior can be quite complex. Proposition 16 establishes that the "bimodal" selection pattern of Example 1 is, in fact, generic. The example's selection properties for $\rho \to 0$ also generalize. Indeed, it is easily verified that the ability space $\mathbb{R}$ can always be partitioned into at most four intervals such that, in the limit, types belonging to the same interval enter the same contest, while types belonging to adjacent intervals enter different contests.

5 Endogenous Effort

In the model of Section 2, "effort" was exogenous and equal to ability. Yet, in practice, agents' effort levels may vary with the structural parameters of the contest. Moreover, anticipated effort may play a role in deciding which contest to enter. Therefore, we now add endogenous effort back into the model.

As before, a unit mass of agents choose between two contests, 1 and 2. The determination of success and failure in each contest is analogous to the earlier model. However, measured performance now depends on endogenous effort rather than exogenous ability. Specifically, the performance of an agent who exerts effort $X \in [0, \infty)$ in Contest i is $Y_i = X \cdot E_i$. Here, $E_i \in (0, \infty)$ represents noise in performance measurement. Taking logs we get

$$y_i = x + \varepsilon_i \ .$$

Our assumptions on ε_i are the same as before.

For an agent of ability $a \in \mathbb{R}$, the cost of exerting (log of) effort $x \in [-\infty, \infty)$ is given by $c(x, a)$. We impose the following, fairly standard properties on this cost function: $c(x, a)$ is twice continuously-differentiable; "zero" effort (i.e., $x = -\infty$) entails zero cost as well as zero marginal cost; outside of "zero," costs and marginal costs are strictly increasing in effort; and costs as well as marginal costs are strictly decreasing in ability. Formally, for all $a \in \mathbb{R}$: 1) $c(-\infty, a) = 0$; 2) $\left.\frac{\partial c(x,a)}{\partial x}\right|_{x=-\infty} = 0$ and $\frac{\partial c(x,a)}{\partial x} > 0$ for $x \in \mathbb{R}$; 3) $\frac{\partial^2 c(x,a)}{(\partial x)^2}$ is strictly positive and bounded away from zero; 4) $\frac{\partial c(x,a)}{\partial a} < 0$ and $\frac{\partial^2 c(x,a)}{\partial a \partial x} < 0$ for $x \in \mathbb{R}$.

An agent of ability a who exerts effort x in Contest i with standard θ_i enjoys an expected pecuniary payoff

$$\pi_i(x, a, \theta_i) = w_i + v_i \bar{F}\left(\frac{\theta_i - x}{\sigma_i}\right) - c(x, a) \ . \tag{9}$$

Non-pecuniary payoffs, δ, are the same as before, and total payoffs continue to be the sum of pecuniary and non-pecuniary payoffs.

Agents simultaneously and independently choose which contest to enter and how much effort to exert.[11] For a given CMF $H_i(a)$, an effort schedule $x_i(a, \theta_i)$ and performance standard θ_i constitute an equilibrium of Contest i if: 1) $x_i(a, \theta_i)$ is optimal for every $a \in \mathbb{R}$; 2)

[11] Again, the analysis remains unchanged if agents move sequentially or if they can switch contests and adjust their effort upon observing others' entry and effort choices. As before, the argument relies on the atomicity of individuals and the absence of aggregate uncertainty.

θ_i is such that the mass of winners, W_i, equals the mass of prizes, m_i. Hence, an equilibrium $(x_i^*(a, \theta_i^*), \theta_i^*)$ of Contest i satisfies

$$\begin{aligned} x_i^*(a, \theta_i^*) &\in \arg\sup_x \pi_i(x, a, \theta_i^*), \text{ and} \\ W_i(\theta_i^*) &= \int_{-\infty}^{\infty} \bar{F}\left[\frac{\theta_i^* - x_i^*(a, \theta_i^*)}{\sigma_i}\right] dH_i(a) = m_i \ . \end{aligned}$$

A Bayesian Nash equilibrium of the full game consists of a tuple $\{(H_1^*(a), H_2^*(a)), (x_1^*(a, \theta_1^*), \theta_1^*), (x_2^*(a, \theta_2^*), \theta_2^*)\}$ of CMFs $H_i^*(a)$ and equilibria $(x_i^*(a, \theta_i), \theta_i^*)$, $i \in \{1, 2\}$, such that if H_i^* assigns positive mass density to type a in Contest i, then this type cannot gain by switching contests.

5.1 Equilibrium

We solve for equilibrium as before, save for the additional consideration of effort optimization. First, we characterize the optimal-effort schedule $x_i(a, \theta_i)$ conditional on standard θ_i. Second, for each contest we determine the market-clearing standard θ_i conditional on CMF H_i. Third, we derive agents' entry decisions and resulting CMFs (H_1, H_2) conditional on standards (θ_1, θ_2). Together, these three steps define a mapping from the space of performance standards into itself. Finally, we show that there exist standards (θ_1^*, θ_2^*) that constitute a fixed point of the system. These standards gives rise to an equilibrium $\{(H_1^*(a), H_2^*(a)), (x_1^*(a, \theta_1^*), \theta_1^*), (x_2^*(a, \theta_2^*), \theta_2^*)\}$.

We begin by characterizing the optimal effort profile, $x^*(a, \theta)$, conditional on standard θ. (We suppress subscript i in the remainder of this section because it plays no role.) Differentiating equation (9) with respect to x yields the following first-order condition (FOC) for optimal effort:

$$vf\left(\frac{\theta - x}{\sigma}\right) - \frac{\partial c(x, a)}{\partial x} = 0 \ .$$

The second-order condition (SOC) for the FOC to characterize a maximum is

$$-\frac{v}{\sigma} f'\left(\frac{\theta - x}{\sigma}\right) - \frac{\partial^2 c(x, a)}{(\partial x)^2} < 0 \ .$$

Figure 4(a) illustrates the situation. Since the marginal benefit of effort, $vf\left(\frac{\theta - x}{\sigma}\right)$, is increasing for $x < \theta$, mere convexity of $c(x, a)$ in x does not guarantee that the FOC yields

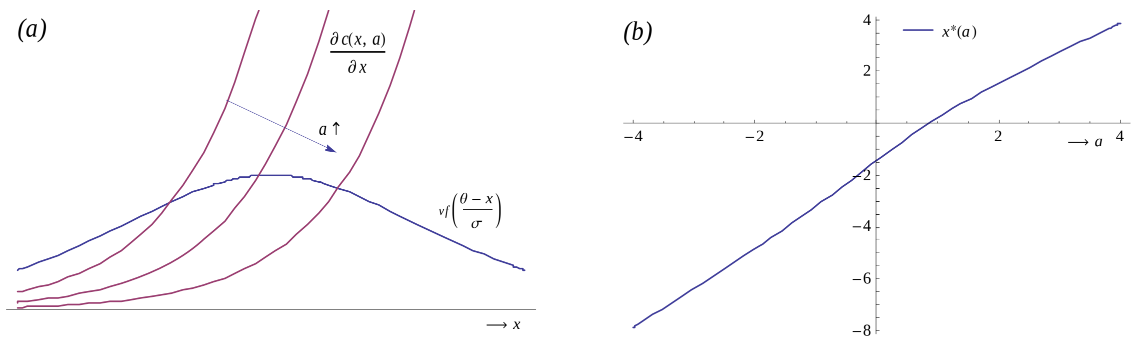

Figure 4: Panel *(a)* illustrates that, at an intersection point, the marginal cost curve $\partial c/\partial x$ must be steeper than the marginal benefit curve vf for the SOC to hold. Panel *(b)* depicts the optimal effort schedule, $x^*(a)$, in Example 4.

a maximum. Rather, the cost function must be "sufficiently" convex or performance measurement sufficiently noisy, thereby flattening marginal benefits. Because f' is bounded by assumption, a sufficient condition for the SOC to be satisfied is that $\frac{\partial^2 c}{(\partial x)^2} > \frac{v}{\sigma} \sup f'$. For the remainder of the analysis we assume that the SOC holds.

Because the marginal cost of effort is strictly decreasing in a, the optimal-effort schedule is strictly increasing. All else equal, effort is also increasing in v because a higher prize raises the marginal benefit of effort. The effect of an exogenous rise in standards critically depends on whether a agent needs a lucky break or needs to avoid an unlucky break. When the agent needs to avoid an unlucky break, increasing the standard does raise his effort. To see this, notice that a higher θ narrows the "gap" $|x - \theta|$. Since the density of ε is single-peaked around zero, this narrowing raises the marginal benefit of effort. Hence, optimal effort increases. By contrast, when an agent needs a lucky break, a higher standard widens the gap between effort and standard. Again owing to the single-peakedness of f, the marginal benefit of effort falls and so does optimal effort.

Interestingly, effort is not uniformly increasing in meritocracy either. To see this, notice that a fall in σ lifts the peak of f and thins the tails. This raises the marginal benefit of effort for agents operating close to the standard but reduces it for those operating farther away. Naturally, optimal effort follows suit. Put differently, a rise in meritocracy discourages low types, encourages medium types, and makes high types complacent. Discouragement and complacency can make meritocracy "too much of a good thing," even in a single contest. That is, if the objective is to maximize aggregate effort, it may be optimal to *reduce* meritocracy.

This is illustrated in the following example.

Example 4 *Consider a unit mass of agents participating in a single contest. Let* $a \sim N(0,1)$, $\varepsilon \sim Logistic(0,\sigma^2)$, $m = .1$, $v = 1$, *and* $c(x,a) = \left(e^{e^x} - e^x - 1\right)/e^{e^a}$, *while* w *is irrelevant. Notice that this cost function satisfies our assumptions. Moreover, for* σ *not too small, the SOC is satisfied.*

Aggregate effort, $\int X(a,\theta)\, g(a)\, da$, *takes on its maximum at* $\sigma \approx .76$. *The corresponding optimal-effort schedule,* $x^*(a, \theta^* = 1.22)$, *is depicted in Figure 4(b).*

Returning to the two-contest environment, the remainder of the equilibrium derivation proceeds along the same lines as in the exogenous-effort model. This yields:

Proposition 17 *An equilibrium exists in the selection model with endogenous effort.*

In a symmetric baseline, the equilibrium is unique. Both contests are competitive and have the same standard. 50% of every ability type enter each contest.

When $\rho \to 0$, *both contests remain competitive in a neighborhood of a symmetric baseline.*

5.2 Selection Around a Symmetric Baseline

In the context of the endogenous-effort model, we now revisit the sorting effects of cross-contest differences in structural parameters. For tractability reasons we focus on a neighborhood of structural parameters around a symmetric baseline. That is, the two contests cannot be "too different." In that case, all our previous findings carry over. Formally,

Proposition 18 *In a neighborhood of structural parameters around a symmetric baseline, selection patterns in the endogenous-effort model are the same as in the exogenous-effort model of Section 2. That is, mutatis mutandis, Propositions 1 to 16 continue to hold.*

The proof of Proposition 18 relies on the envelope theorem. In the model of Section 2, "effort" was fixed at a regardless of the values of structural parameters. By contrast, effort is now parameter-dependent. Indeed, even a marginal change in one or more parameters has a first-order effect on optimal effort. However, by the envelope theorem, this effort adjustment only has second-order effects on payoffs. Hence, when studying $\Pr 1(a)$ in a neighborhood of a symmetric baseline, we can ignore changes in $x_i^*(a)$ and pretend that effort is *exogenous*. In fact, this argument holds around any parameter point—not merely around a symmetric baseline. However, in a symmetric baseline, every type's effort level is the same across contests. Therefore, the cost of effort differences out of $\pi_1^* - \pi_2^*$, which makes the endogenous-effort model locally isomorphic to the exogenous-effort model. This allows us to reinterpret an individual's effort at a symmetric baseline as his type and apply all the arguments and machinery of the exogenous-effort model.

Proposition 18 raises the question how "close" the two contests have to be for the selection pattern in the endogenous-effort model to be the same as in the exogenous-effort model. To get a feel, we re-analyze Example 1 for endogenous effort, using the cost function of Example 4.

Example 5 *Suppose* $a \sim N(0,1)$, $\delta \sim N(\tau = .05, \rho = .05)$, *and* $\varepsilon_i \sim Logistic(0, \sigma_i)$, $i \in \{1,2\}$. *Let* $(w_1, w_2) = (1.1, 1)$, $(m_1, m_2) = (.1, .2)$, $(v_1, v_2) = (1, 1.1)$, $(\sigma_1, \sigma_2) = (.6, 1)$, *and* $c(x,a) = \left(e^{e^x} - e^x - 1\right)/e^{e^a}$. *Hence, probability distributions and parameter values are as in Example 1, while the cost of effort is as in Example 4.*

1. *The resulting effort schedules are shown in Figure 5(a), while* $\Pr 1(a)$ *is shown in Figure 5(b). The PDFs of abilities in the two contests are given in Figure 5(c). Standards are* $(\theta_1^*, \theta_2^*) = (.40, .36)$. *The fraction of the population entering each contest is* $(\Pr 1, \Pr 2) = (.25, .75)$, *while average abilities are* $(E_1[a], E_2[a]) = (.32, -.11)$.

2. *When* ρ *is reduced to* $.0005$, *effort, selection, and ability densities are as in Figures 1(d), (e), and (f), respectively. Standards are* $(\theta_1^*, \theta_2^*) = (0.43, 0.42)$, *while* $(\Pr 1, \Pr 2) = (.20, .80)$ *and* $(E_1[a], E_2[a]) = (.49, -.13)$.

The similarities between Figures 5 and 1 are quite striking. Indeed, the selection functions and resulting ability distributions are almost indistinguishable.[12] The reason is that, even though structural parameters are quite different, effort schedules and, more importantly, the costs of effort do not to diverge much across contests. Hence, as in a symmetric baseline, costs continue to (almost) difference out of $\pi_1^*(a) - \pi_2^*(a)$ and, therefore, the endogenous and exogenous effort models remain essentially isomorphic. To induce larger differences between the two models, we would have to further increase the differences in structural parameters,

[12] It is easy to destroy any visual likeness by changing the cost function's dependence on a. For example, if $c(x,a) = \left(e^{e^x} - e^x - 1\right)/a$, then the horizontal axes in Figure 5 are stretched out by a factor $\exp(\exp(a))$. However, provided multiplicative separability between effort and ability is maintained, any change in the cost function's dependence on a simply corresponds to a relabeling of types. In that sense, our initial choice was without loss of generality.

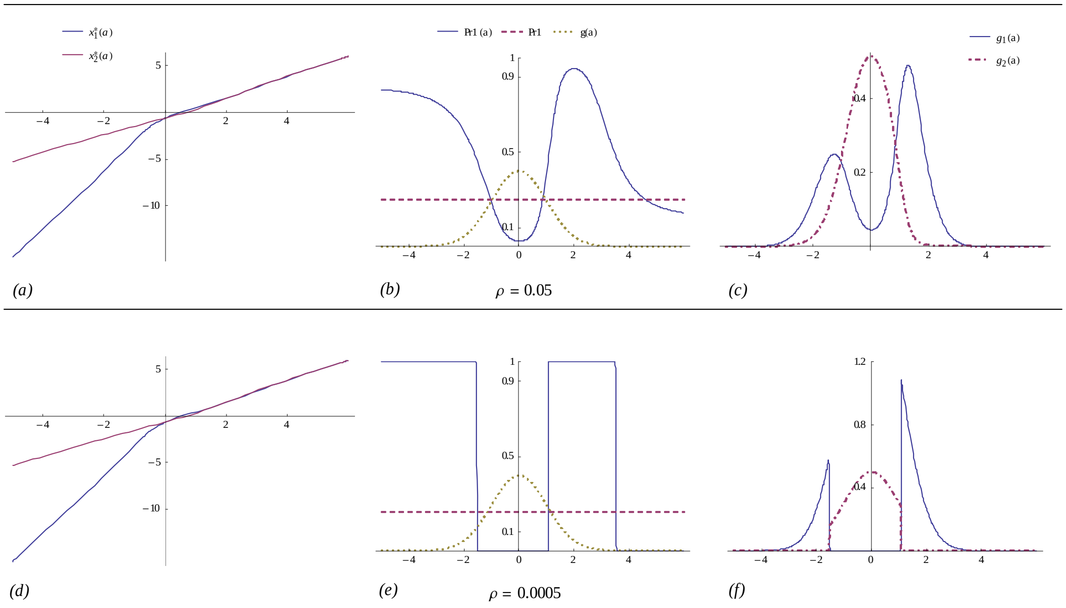

Figure 5: Optimal effort, selection, and the resulting ability distributions in the two contests of Example 5 for $\rho = .05$ (top row) and $\rho = .0005$ (bottom row).

while keeping both contests competitive. Our numerical simulations show that, even then, the "bimodal" shape is always maintained. This suggests that the results and intuitions of the exogenous-effort model are reasonably robust and, for most intents and purposes, carry over to the endogenous-effort model

5.3 Effort Across Contests

Agents of the same ability who enter the same contest exert the same effort. However, across contests, effort levels will generally differ, i.e., $x_1^*\left(a, \theta_1^*\right) \neq x_2^*\left(a, \theta_2^*\right)$. This raises the question in which contest agents work harder and how the prospect of hard work is related to entry. Intuitively, the relationship between effort and entry could go either way. Since effort is costly, one might argue that agents avoid contests that make them work hard. Conversely, one might think that agents go where they can "shine."

Our next lemma shows that effort and entry are, in fact, unrelated. Rather, it is the *change* in the probability of entry in a neighborhood around an agent, i.e., the slope of $\Pr 1\left(a\right)$, that "determines" which contest elicits the greater effort. Specifically,

Lemma 4

$$x_1^*(a) \gtreqless x_2^*(a) \Longleftrightarrow \frac{d\Pr 1(a)}{da} \gtreqless 0 \ .$$

Notice that Lemma 4 holds globally, i.e., not just in a neighborhood of a symmetric baseline. The intuition for the lemma is as follows. The envelope theorem implies that the rise in payoffs associated with a small rise in ability is equal to the cost savings from exerting the same level of effort at higher ability. Due to the sub-modularity of costs in x and a, i.e., $\partial^2 c(x,a)/(\partial a \partial x) < 0$, these cost savings are increasing in the initial level of effort. Hence, when $\pi_1^*(a)$ increases faster in a than $\pi_2^*(a)$, it must be that $x_1^*(a) > x_2^*(a)$, and vice versa. Finally, recall that $d\Pr 1(a)/da$ takes on the same sign as $d(\pi_1^* - \pi_2^*)/da$. The sign of the slope of $\Pr 1(a)$ is therefore a sufficient statistic for ranking an agent's effort across contests.

From Propositions 16 and 18 we know that, in a neighborhood of a symmetric baseline, the slope of $\Pr 1(a)$ is determined by meritocracy alone. In combination with Lemma 4 this allows us to rank agents' efforts across contests. Let a_0 denote the lower, and a_1 the higher value of a where $\lambda(a) = \frac{v_2/v_1}{\sigma_2/\sigma_1}$.[13] Then:

Corollary 3 *Agents of intermediate ability work harder in the more meritocratic contest, while agents of extreme ability work harder in the less meritocratic contest.*

Formally, suppose Condition 1 holds and $\sigma_1 < \sigma_2$. In a neighborhood of a symmetric baseline,

$$x_1^*(a) > x_2^*(a) \ \text{ iff } a_0 < a < a_1 \ .$$

In Section 5.1 we observed that, in a single-contest, an increase in meritocracy discourages low types, encourages intermediate types, and makes high types complacent. Corollary 3 can be viewed as an across-contest analogue. However, in one important respect, the result in Corollary 3 is stronger: it compares contests with (somewhat) different w, m, v, and σ, and shows that effort comparisons *only* depend on differences in σ. On the other hand, the single-contest result is more robust, as it extends to global comparisons of σ.

To conclude, a basic insight from the industrial organization literature is what we call the *mitigation principle.* It refers to the fact that, in two-stage games of positioning and competition, equilibrium often entails positioning strategies in the first stage that mitigate the intensity and cost of competition in the second stage. For instance, in a Hotelling "linear

[13] Because $\bar{\lambda} > 1$, a_0 and a_1 always exist in a neighborhood of a symmetric baseline.

city" game with quadratic transportation costs, firms reduce competition by locating at the end points. Applied to our model, the mitigation principle suggests that agents of similar ability should split up across contests, in order to minimize the cost of head-on competition. Results from small contests confirm this intuition. For example, suppose that two agents of similar ability must choose between two winner-take-all contests, one of which offers a somewhat higher prize. Even though both agents are tempted by the higher prize, they will be wary of the harsh competition that ensues if they enter the same contest. As a result, in all pure-strategy equilibria, the agents split up.

Interestingly, we have observed the exact opposite phenomenon: in our model, individuals of similar ability enter the *same* contest, especially when $\rho \to 0$. The reason the mitigation principle breaks down is that our large-population assumption precludes "market-impact" effects. That is, the presence or absence of a single agent has no effect on the competitiveness of a contest. As a consequence, the dyadic nature of competition in small contests, which is most intense between agents of the same ability, is lost and replaced by an anonymous battle against a seemingly fixed standard. The result is homophyly rather than mitigation because, if one agent pecuniarily strictly prefers a particular contest, so too do all other agents of similar ability. Hence, selection in large contests entails sorting rather than splitting.

6 Related Literature

For a broad overview of contest theory and its applications see the book by Konrad (2009). Formal investigations of selection into contests are all quite recent.[14] They include papers by Leuven *et al.* (2011, 2010), Azmat and Möller (2012, 2009), and Konrad and Kovenock (2012).

In Leuven *et al.* (2010), abilities are binary and success is determined by a parametric contest success function (Tullock, 1980). Their main finding is that high-ability individuals are not necessarily attracted by higher prizes. This is consistent with our findings in so far as, also in our model, the attractiveness of higher prizes is non-monotone in ability. Meritocracy, show-up fees, and number of prizes do not feature in their analysis. Leuven *et al.* (2011)

[14] In their seminal paper on rank-order tournaments, Lazear and Rosen (1981) observed that "in the real world, where there is population heterogeneity, market participants are sorted into different contests. There, players (and horses, for that matter) who are known to be of higher quality ex ante may play in games with higher stakes." Another early reference is the book by Frank (1985). He discusses which contest to enter when status—i.e., relative standing—is an important consideration.

conduct a field experiment to disentangle the selection and incentive effects of contests. For their experimental environment they find that selection effects clearly dominate.

Azmat and Möller (2009) study how competing contests should be structured in order to maximize participation. Their main finding—for which they find empirical support in professional road running—is that the more discriminatory the contest, the more prizes should be offered. Unlike in our model, contestants in Azmat and Möller (2009) are identical in ability and the contest success function is parametric. In Azmat and Möller (2012), abilities are binary. The authors show that the fraction of high-ability agents choosing the more competitive, high-prize contest is a decreasing function of their population share. Data on entry into marathons support their finding. Also studying entry into contests, Konrad and Kovenock (2012) show that mixing in the entry stage can lead to coordination failure in entry decisions. This coordination failure shelters rents, even among homogenous contestants.

Compared to the extant literature, our modeling innovations allow us to analyze the classic "ponds dilemma" in considerable generality. We do not restrict the distribution of abilities in the population and allow for a broad class of contest success functions. Simultaneous differences in discriminatoriness, show-up fees, the number of prizes, and the value of prizes are also an original contribution of the current paper. Our analysis uncovers a subtle interplay between direct and indirect effects of differences in structural parameters. Jointly, these effects explain the selection behavior observed in our model.

In auction theory there exists a small literature on competing auctions. Moldovanu *et al.* (2008) consider quantity competition between two auction sites, while McAfee (1993), Peters and Severinov (1997), and Burguet and Sakovics (1999) study competition between auctions by means of reserve prices. Another small but growing literature considers self-selection into alternative remuneration schemes and organizations. Lazear (2000) studies output per worker in a firm that changes from fixed wages to piece rates. He finds that as much as fifty percent of the resulting increase in productivity comes from positive selection, while the other half can be attributed to an increase in the productivity of existing workers. Damiano *et al.* (2010, 2012) study sorting across organizations, focusing on pecking order and peer effects. In their 2010 paper, individuals only care about the average ability of their peers and their own place in the pecking order. The authors show that high and low types self-segregate, while middling sorts are present in both organizations. In their 2012 paper, individuals still care about the average ability of their peers, but money is now a consideration as well. The competing organizations try to maximize the average ability of their workforce. The authors show that, while both organizations attract some high-ability types, equilibrium is asymmetric. Moreover, the 'low-ability' organization offers a steeper wage schedule than the 'high-ability' organization.

One of the workhorse models of the labor literature is the Roy model (see Roy, 1951, as well as Borjas, 1987, Heckman and Honoré, 1990, and Heckman and Taber, 2008.) As in our model, agents in the Roy model self-select into the sector that provides them with the highest expected payoff. An important difference is that ability in the Roy model is sector-specific. Multidimensionality of ability implies that entry decisions are driven by comparative advantage. Depending on the variances and correlation of an agent's abilities in the two sectors, either sector may benefit from positive selection. In our model, comparative advantage plays no role because an agent's ability is the same in both contests. On the other hand, we allow for general-equilibrium effects that are absent from the Roy model. For example, additional entry into a contest negatively affects the expected payoffs of agents already there. In turn, this may induce these agents to reconsider their own choice of contest. Similarly, changes in effort in one contest affect equilibrium effort and entry in both contests.

Finally, our paper is also related to the literature on Hotelling's "linear city" model and its many variants. (See d'Aspremont *et al.*, 1979, for a correction to the original analysis by Hotelling, 1929.) In these games of positioning and competition, equilibrium entails positioning strategies that mitigate competition. We have referred to this phenomenon as the "mitigation principle." Applied to self-selection into contests, the mitigation principle suggests that individuals of similar ability should split up in the first stage in order to soften competition in the second stage. Perhaps surprisingly, we have shown that the exact opposite occurs in our model: individuals of similar ability enter the same contest. As we have argued, this is a consequence of our focusing on "large" contests with a continuum of agents.

7 Conclusion

In this paper we have analyzed various versions of the ponds dilemma, the question whether it is better to be a big fish in a small pond or a small fish in a big pond. A common intuition is that bigger fish (i.e., those of higher ability) are more likely to choose the big pond (i.e., the contest with the greater rewards and more intense competition). Unless one of the ponds is entirely uncompetitive, we have shown that this intuition is wrong. The key insight is that the likelihood ratio of success across contests varies non-monotonically with ability because extreme types can safely ignore differences in competitiveness, while middling sorts cannot. This non-monotonicity carries over to selection such that, in large regions of the ability distribution, bigger fish are *less* likely to choose the big pond.

Differences in reward structures can have unexpected selection effects. For instance, offering a higher show-up fee makes the distribution of contestants bimodal, since such a policy attracts the extremes while repelling the middle. Even a seemingly straightforward increase in prize values yields non-obvious selection patterns, owing to the competitive changes wrought. While higher prizes do attract high types, they also drive out middling sorts and have little effect on the selection of low types. As a result, a contest may well raise the value of its prizes, only to see the average ability of contestants fall.

A different kind of trade-off arises when contests differ in meritocracy (i.e., discriminatoriness). Here, agents must compare the benefit of a "lucky break" in measured performance against the cost of an "unlucky break." We obtain the intuitive result that high types are overrepresented in the more meritocratic contest, while low types are underrepresented. However, selection effects attenuate toward the tails because extreme types find meritocracy almost irrelevant to their choice of contest. This has the striking implication that extremely low types disproportionately enter the more meritocratic contest.

Our model is quite general in a number of respects. We impose essentially no restrictions on the distribution of abilities. We allow for both pecuniary and non-pecuniary preferences, encompassing the "neoclassical" case where the latter are vanishingly small. And, apart from the restriction to location-scale families, we make few assumptions about the distribution of noise in performance measurement, i.e., the "contest success function". Probably the most important limitation of our model is the restriction to prizes of equal value within each contest. Unfortunately, we do not see an easy way to relax this assumption in a tractable manner.

In his lecture notes on the Roy model, Autor (2003) observes that "self-selection points to the existence of equilibrium relationships that should be observed in ecological data, and these can be tested without an instrument. In fact, there are some natural sciences that proceed almost entirely without experimentation—for example, astrophysics. How do they do it? Models predict non-obvious relationships in data. These implications can be verified or refuted by data, and this evidence strengthens or overturns the hypotheses. Many economists seem to have forgotten this methodology." We believe that some of the predictions of our model constitute such non-obvious relationships. We look forward to them being verified—or perhaps refuted—by the data.

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A Proofs

Equilibrium

Proof of Lemma 1: If H_i is such that $\Pr i \leq m_i$, then all individuals win a prize and $\theta_i = -\infty$.

If $\Pr i > m_i$, standard θ_i solves

$$W_i(\theta_i) = \int_{-\infty}^{\infty} \bar{F}\left(\frac{\theta_i - a}{\sigma_i}\right) dH_i(a) = m_i \ .$$

I.e., it equalizes the mass of individuals achieving or exceeding the standard, $W_i(\theta_i)$, to the mass m_i of promotion opportunities. To see that θ_i exists and is unique, notice that: 1) $W_i(\theta_i)$ is continuous and strictly decreasing in θ_i; 2) $W_i(\theta_i) \to \Pr i > m_i$ when $\theta_i \to -\infty$; 3) $W_i(\theta_i) \to 0 < m_i$ when $\theta_i \to \infty$. ■

Proof of Proposition 2: Existence of equilibrium was proved in Proposition 1. Next, we show that, in equilibrium, standards must be the same across contests. Suppose not. Because $\tau = 0$, strictly more than 50% of each ability type enter the contest with the lower standard; say, Contest 1. This implies that the mass of winners in Contest 1 is strictly greater than in Contest 2. Since $m_1 = m_2 = m$, this is inconsistent with equilibrium.

Finally, as standards are identical across contests and $\tau = 0$, 50% of each ability type enter each contest. Applying Lemma 1 we know that this selection pattern uniquely determines the (identical) standards in the two contests. Hence, equilibrium is unique. ■

Selection

Proof of Proposition 3: Assume, without loss of generality, that Contest 1 is competitive and Contest 2 is uncompetitive. Then, $\theta_1^* > \theta_2^* = -\infty$, such that

$$\pi_1^*(a) - \pi_2^*(a) = w_1 + \bar{F}\left(\frac{\theta_1^* - a}{\sigma_1}\right) v_1 - w_2 - v_2 \ .$$

This payoff difference is strictly increasing in a. By monotonicity of Γ, the same is true for $\Pr 1(a) = \Gamma\left[\frac{\pi_1^*(a) - \pi_2^*(a)}{\rho}\right]$.

Let $\tilde{\theta}_1^*$ denote the limit value of the standard in Contest 1 as $\rho \to 0$. First, we prove that this limit indeed exists. Suppose to the contrary that, as $\rho \to 0$, there exists a sequence of equilibrium thresholds that does not converge. Then there are at least two convergent subsequences, A, B, with differing limit values $\tilde{\theta}_1^A$, $\tilde{\theta}_1^B$, such that, wlog, $\tilde{\theta}_1^A > \tilde{\theta}_1^B$. The resulting entry pattern in the limit of subsequence A is:

$$\Pr 1(a) \to \begin{cases} 0 & \text{if} \quad a < \tilde{\theta}_1^A - \sigma_1 \bar{F}^{-1}\left(\frac{w_2 - w_1 + v_2}{v_1}\right) \\ 1/2 & \text{if} \quad a = \tilde{\theta}_1^A - \sigma_1 \bar{F}^{-1}\left(\frac{w_2 - w_1 + v_2}{v_1}\right) \\ 1 & \text{otherwise} \end{cases}, \tag{10}$$

and similarly for sequence B. Since $\tilde{\theta}_1^A > \tilde{\theta}_1^B$, the set of entering types in the limit of sequence A is a strict subset of the set of entering types in the limit of sequence B. Because of this subset property and the fact that $\tilde{\theta}_1^A > \tilde{\theta}_1^B$, the mass of winners under A is strictly smaller than under B. Hence, market clearing must be violated in at least one of these cases. Therefore, all subsequences converge to the same standard, $\tilde{\theta}_1^*$, and entry is as in equation (10) with $\tilde{\theta}_1^A = \tilde{\theta}_1^*$. An analogous argument shows that $\tilde{\theta}_1^*$ is, in fact, unique. ■

Recall that interior equilibrium standards (θ_1^*, θ_2^*) are characterized by the market clearing conditions

$$\begin{aligned} \int_{-\infty}^{\infty} \bar{F}\left(\frac{\theta_1 - a}{\sigma_1}\right) dH_1(a) &= m_1 \\ \int_{-\infty}^{\infty} \bar{F}\left(\frac{\theta_2 - a}{\sigma_2}\right) dH_2(a) &= m_2 \,. \end{aligned}$$

Denote the left-hand side of this system by $S(\theta_1, \theta_2)$ and denote the first and second component of $S(\theta_1, \theta_2)$ by S_1 and S_2, respectively.

The following two lemmas are used in the proof of Proposition 4 below.

Lemma 5 *In a symmetric baseline, the Jacobian of $S(\theta_1, \theta_2)$ is non-singular for generic values of ρ.*

Proof When evaluated at a symmetric baseline, we have to show that

$$\det \begin{bmatrix} \frac{\partial S_1}{\partial \theta_1} & \frac{\partial S_1}{\partial \theta_2} \\ \frac{\partial S_2}{\partial \theta_1} & \frac{\partial S_2}{\partial \theta_2} \end{bmatrix} \Bigg|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} \neq 0 \,.$$

Notice that

$$\frac{\partial S_1}{\partial \theta_1} = \int_{-\infty}^{\infty} \bar{F}_1 \frac{\partial h_1(a, \theta_1, \theta_2)}{\partial \theta_1} da + \int_{-\infty}^{\infty} \frac{1}{\sigma_1} f_1 h_1(a, \theta_1, \theta_2)\, da \,,$$

where $\bar{F}_i$ and f_i are short for $\bar{F}\left(\frac{\theta_i - a}{\sigma_i}\right)$ and $f\left(\frac{\theta_i - a}{\sigma_i}\right)$. Similarly,

$$\frac{\partial S_1}{\partial \theta_2} = \int_{-\infty}^{\infty} \bar{F}_1 \frac{\partial h_1(a, \theta_1, \theta_2)}{\partial \theta_2} da \ .$$

Recall that $h_1(a, \theta_1, \theta_2) = g(a) \Gamma\left(\frac{\pi_1 - \pi_2}{\rho}\right)$. Differentiating h_1 with respect to θ_1, we find

$$\frac{\partial h_1(a, \theta_1, \theta_2)}{\partial \theta_1} = g(a) \frac{1}{\rho} \gamma \frac{\partial \pi_1(a, \theta_1)}{\partial \theta_1} = -g(a) \gamma f_1 \frac{v_1}{\rho \sigma_1} \ .$$

Here, γ is short for $\gamma\left[\frac{\pi_1 - \pi_2}{\rho}\right]$.

At a symmetric baseline this reduces to

$$\left.\frac{\partial h_1(a, \theta_1, \theta_2)}{\partial \theta_1}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} = -g(a) \gamma(0) f^* \frac{v}{\rho \sigma} = \left.\frac{\partial h_2(a, \theta_1, \theta_2)}{\partial \theta_2}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} \ ,$$

where $f^* \equiv f\left(\frac{\theta^* - a}{\sigma}\right)$. Similarly,

$$\left.\frac{\partial h_1(a, \theta_1, \theta_2)}{\partial \theta_2}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} = g(a) \gamma(0) f^* \frac{v}{\rho \sigma} = \left.\frac{\partial h_2(a, \theta_1, \theta_2)}{\partial \theta_1}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} \ .$$

Let $\frac{\partial S_1}{\partial \theta_i^*} \equiv \left.\frac{\partial S_1}{\partial \theta_i}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)}$. Substituting the expressions for $\frac{\partial h_1}{\partial \theta_1}$ and $\frac{\partial h_1}{\partial \theta_2}$ into $\frac{\partial S_1}{\partial \theta_1}$ and $\frac{\partial S_2}{\partial \theta_1}$ we find

$$\frac{\partial S_1}{\partial \theta_1^*} = \int_{-\infty}^{\infty} \left[\Gamma(0) - \bar{F}^* \gamma(0) \frac{v}{\rho}\right] \frac{1}{\sigma} f^* g(a) \, da = \frac{\partial S_2}{\partial \theta_2^*}$$

and

$$\frac{\partial S_2}{\partial \theta_1^*} = \int_{-\infty}^{\infty} \bar{F}^* \gamma(0) \frac{v}{\rho} \frac{1}{\sigma} f^* g(a) \, da = \frac{\partial S_1}{\partial \theta_2^*} \ .$$

Therefore,

$$\frac{\partial S_1}{\partial \theta_1^*} = \Gamma(0) \int_{-\infty}^{\infty} \frac{1}{\sigma} f^* g(a) \, da - \frac{\partial S_1}{\partial \theta_2^*} = \Xi - \frac{\partial S_1}{\partial \theta_2^*} \ ,$$

where $\Xi > 0$.

Due to symmetry, the determinant of the Jacobian of S then simplifies to

$$\det \left.\begin{bmatrix} \frac{\partial S_1}{\partial \theta_1} & \frac{\partial S_1}{\partial \theta_2} \\ \frac{\partial S_2}{\partial \theta_1} & \frac{\partial S_2}{\partial \theta_2} \end{bmatrix}\right|_{(\theta_1, \theta_2) = (\theta^*, \theta^*)} = \left(\frac{\partial S_1}{\partial \theta_1^*} + \frac{\partial S_1}{\partial \theta_2^*}\right) \left(\frac{\partial S_1}{\partial \theta_1^*} - \frac{\partial S_1}{\partial \theta_2^*}\right) \ . \tag{11}$$

Since $\frac{\partial S_1}{\partial \theta_1^*} = \Xi - \frac{\partial S_1}{\partial \theta_2^*}$ and $\Xi > 0$, the first factor in (11) is strictly positive at the baseline. Thus, it remains to show that the second factor, $\frac{\partial S_1}{\partial \theta_1^*} - \frac{\partial S_1}{\partial \theta_2^*}$, is nonzero. Substituting and simplifying yields the required condition

$$\int_{-\infty}^{\infty}\left[\Gamma(0)-2\bar{F}^{*}\gamma(0)\frac{v}{\rho}\right]\frac{1}{\sigma}f^{*}g(a)\,da\neq 0\ . \tag{12}$$

Solving for ρ we get

$$\rho\neq 2v\frac{\gamma(0)}{\Gamma(0)}\frac{\int_{-\infty}^{\infty}\bar{F}^{*}f^{*}g(a)\,da}{\int_{-\infty}^{\infty}f^{*}g(a)\,da}\ .$$

Notice that θ^{*} does not depend on ρ since, in a symmetric baseline, selection is 50-50 irrespective of ρ. Hence, the RHS is a strictly positive constant. Therefore, generically, the Jacobian is non-singular at the baseline. ■

Lemma 6 *Fix some $\sigma_1,\sigma_2>0$, $m_1,m_2>0$, and $m_1+m_2<1$. If the contests' show-up fees w and prizes v are sufficiently close together, a measure of individuals strictly greater than m_i enter Contest $i\in\{1,2\}$ when $\rho\to 0$.*

Proof Suppose to the contrary that, no matter how small $|w_1-w_2|$ and $|v_1-v_2|$, when $\rho\to 0$, fewer than m_i individuals enter Contest i. In that case, $\Pr j>1-m_i$ individuals enter Contest $j\neq i$. Moreover, since $1-m_i>m_j$, it follows that Contest j is competitive. This configuration yields standards $\theta_i^{*}=-\infty$ and $\infty>\theta_j^{*}\geq\underline{\theta}_j>-\infty$. Here, $\underline{\theta}_j$ is a lower bound on θ_j^{*} that is reached when only the lowest-ability $(1-m_i)$-quantile of individuals enter Contest j.

Because $\theta_i^{*}=-\infty$, all individuals entering Contest i win a prize with certainty. The pecuniary payoff of entering this contest is therefore w_i+v_i. The pecuniary payoff of entering Contest j is $w_j+\bar{F}\left(\frac{\theta_j^{*}-a}{\sigma_j}\right)v_j$. Hence, when $\rho\to 0$, an ability type a enters Contest j iff

$$w_j+\bar{F}\left(\frac{\theta_j^{*}-a}{\sigma_j}\right)v_j\geq w_i+v_i\ .$$

This is equivalent to

$$a\geq\theta_j^{*}-\sigma_jF^{-1}\left(\frac{w_i-w_j+v_i-v_j}{v_j}\right)\ .$$

It follows that, for $\rho\to 0$, $\Pr j$ equals

$$1-G\left[\theta_j^{*}-\sigma_jF^{-1}\left(\frac{w_i-w_j+v_i-v_j}{v_j}\right)\right]<1-G\left[\underline{\theta}_1-\sigma_jF^{-1}\left(\frac{w_i-w_j+v_i-v_j}{v_j}\right)\right]\ . \tag{13}$$

Finally, notice that when $w_i-w_j+v_i-v_j<v_jF\left\{\left[\underline{\theta}_1-G^{-1}(m_i)\right]/\sigma_j\right\}$, the RHS of (13) is strictly smaller than $1-m_i$. This contradicts the notion that, no matter how small $|w_1-w_2|$ and $|v_1-v_2|$, $\Pr j>1-m_i$. ■

Proof of Proposition 4: From Proposition 2 we know that, in a symmetric baseline, 50% of every ability type enter each contest. Hence, $\Pr 1 = \Pr 2 = 1/2$. Because $m_1 = m_2 = m < 1/2$, we may conclude that both contests are competitive.

From Lemma 5 we know that the Jacobian of S is non-singular at a symmetric baseline. Hence, at such a point, we may apply the implicit function theorem (IFT) to the market-clearing conditions $S(\theta_1^*, \theta_2^*) = [m, m]^T$. The IFT implies that equilibrium standards (θ_1^*, θ_2^*) remain finite in a neighborhood of structural parameters around a symmetric baseline. Thus, both contests are competitive.

Finally, Lemma 6 implies that the competitive region remains non-degenerate when $\rho \to 0$. ■

Selection: Show-up Fees

Proof of Lemma 2:

Let $f_i \equiv f\left(\frac{\theta_i - a}{\sigma}\right)$, and let f_i' denote the derivative of f_i with respect to its argument.

1) Differentiating $l(a)$ with respect to a we obtain

$$l'(a) = \frac{-f_1' f_2 + f_2' f_1}{\sigma (f_2)^2} ,$$

which takes the sign of the numerator.

From log-concavity of f we know that $\frac{f'(\cdot)}{f(\cdot)}$ is strictly decreasing. Hence, for $\theta_1 > \theta_2$,

$$f_1'/f_1 < f_2'/f_2 .$$

This implies that $l'(a) > 0$.

For $\theta_1 < \theta_2$ the argument is analogous. The result for $\theta_1 = \theta_2$ is trivial.

2) If $\theta_1 > \theta_2$, then we know from Part 1 that $l'(a) > 0$. Hence,

$$\underline{l} = \lim_{a \to -\infty} l(a) < l(\theta_2) < 1 < l(\theta_1) < \lim_{a \to \infty} l(a) = \bar{l} ,$$

where the second and third inequalities follow from single-peakedness of f. For $\theta_1 < \theta_2$, the argument is analogous. ■

Proof of Proposition 5:

First we prove claim **3)**, namely, that $\theta_1^* > \theta_2^*$. Suppose, by contradiction, that $\theta_1^* \leq \theta_2^*$. In that case, Contest 1 is pecuniarily strictly more attractive to all agents. Hence, strictly more than 50% of every ability type enter this contest. In combination with $\theta_1^* \leq \theta_2^*$, this means that there are strictly more winners in Contest 1 than in Contest 2. However, this is inconsistent with equilibrium because $m_1 = m_2$.

For $\theta_1^* > \theta_2^*$, Lemma **2** implies that $l(a)$ is strictly increasing in a and $\underline{l} < 1 < \bar{l}$. From equation (4) it then follows that $d(\pi_1^* - \pi_2^*)/da$ single-crosses zero from below. Hence, $\pi_1^* - \pi_2^*$ and $\Pr 1(a)$ are U-shaped in a. This proves claim **1)**.

Finally, claim **2)** is proved in the text, while claim **4)** is proved by example: Suppose $a \sim N(0,1)$, $\delta \sim N(0,.05)$, and $\varepsilon_i \sim \mathit{Logistic}(0,1)$. Let $w_1 = 1.1 > 1 = w_2$. If $m_i = .1$ and $v_i = 1$, $i \in \{1,2\}$, then $\Pr 1 = .71 > .29 = \Pr 2$. However, if $m_i = .4$ and $v_i = 4$, $i \in \{1,2\}$, then $\Pr 1 = .44 < .56 = \Pr 2$. Hence, $\Pr 1$ may take on values on either side of $1/2$. ■

Proof of Proposition 6: First we show that $G_1(a)$ starts out above $G_2(a)$. Notice that

$$G_1(a) - G_2(a) = \frac{\Pr 2 \cdot \int_{-\infty}^{a} \Gamma g(\alpha)\, d\alpha - \Pr 1 \cdot \int_{-\infty}^{a} (1-\Gamma)\, g(\alpha)\, d\alpha}{\Pr 1 \Pr 2}, \tag{14}$$

where Γ is short for $\Gamma\left[\frac{\pi_1^*(\alpha) - \pi_2^*(\alpha)}{\rho}\right]$. Fix α such that $\pi_1^*(\alpha) - \pi_2^*(\alpha) \neq 0$. Then,

$$\lim_{\rho \to 0} \Gamma\left[\frac{\pi_1^*(\alpha) - \pi_2^*(\alpha)}{\rho}\right] = \begin{cases} 0 & \text{if} \quad \pi_1^*(\alpha) - \pi_2^*(\alpha) < 0 \\ 1 & \text{if} \quad \pi_1^*(\alpha) - \pi_2^*(\alpha) > 0 \end{cases}.$$

Next note that, for α sufficiently small, $\pi_1^*(\alpha) - \pi_2^*(\alpha) \approx \frac{w_1 - w_2}{\rho}$. Since $w_1 > w_2$, it follows that, for ρ close to zero and α sufficiently small, $\Gamma \approx 1$. Hence, by inspection of equation (14) it may be seen that, in that case, $G_1(a) > G_2(a)$.

Next, it is easily verified that $\frac{d}{da}[G_1(a) - G_2(a)]$ takes the same sign as $\Gamma - \Pr 1$. Recall that $\pi_1^*(a) - \pi_2^*(a)$ is U-shaped in a. Hence, so is $\Gamma - \Pr 1$. Moreover, the U-shapedness of the last expression implies that, for $|a|$ sufficiently large, $\Gamma > \Pr 1$. Hence, also $\frac{d}{da}[G_1(a) - G_2(a)] > 0$ for $|a|$ sufficiently large.

Because $G_1(a)$ starts out strictly above $G_2(a)$ while $G_1(\infty) = G_2(\infty) = 1$, $\frac{d}{da}[G_1(a) - G_2(a)]$ must be strictly negative somewhere. Moreover, the U-shapedness of $\Gamma - \Pr 1$ implies that $\frac{d}{da}[G_1(a) - G_2(a)]$ changes signs exactly twice. Taken together, this implies that $G_1(a)$ single-crosses $G_2(a)$ from above. ■

Proof of Proposition 7: For $\rho \to 0$, consider a convergent (sub)sequence of equilibria with limit standards (θ_1^*, θ_2^*). First, we show that when $\rho \to 0$, $\pi_1^*(a) - \pi_2^*(a)$ remains U-shaped. To see this, notice that the arguments in the proof of Proposition 5 establishing this result for fixed $\rho > 0$ continue to hold without modification when $\rho \to 0$.

U-shapedness of $\pi_2^*(a) - \pi_1^*(a)$ implies that, in pecuniary terms, almost all ability types have strict preferences over contests. Because pecuniary payoffs determine entry decisions when $\rho \to 0$, this means that individuals of the same ability choose the same contest—namely, the one that strictly maximizes their pecuniary payoffs.

Because $\lim_{|a|\to\infty} \pi_1^*(a) - \pi_2^*(a) = w_1 - w_2 > 0$, when $\rho \to 0$ extreme ability types enter Contest 1. Let a' denote the point where $\pi_2^*(a) - \pi_1^*(a)$ takes on its minimum. By assumption, w_1 and w_2 are sufficiently close together such that both contests are competitive. Therefore, it must be that $\pi_1^*(a') - \pi_2^*(a') < 0$ for $\rho \to 0$. Once more using the single-peakedness of $\pi_2^*(a) - \pi_1^*(a)$ we may conclude that, for a convergent (sub)sequence of equilibria, there exist $-\infty < \underline{a} < \bar{a} < \infty$ such that $\lim_{\rho\to 0} \Pr 1 = \begin{cases} 0 & \text{if} \quad \underline{a} < a < \bar{a} \\ 1 & \text{otherwise} \end{cases}$. ■

Selection: Number of Prizes

Proof of Proposition 8: The pecuniary payoff difference is

$$\pi_1^* - \pi_2^* = \left[\bar{F}\left(\frac{\theta_1^* - a}{\sigma}\right) - \bar{F}\left(\frac{\theta_2^* - a}{\sigma}\right)\right] v \ .$$

Hence, $\lim_{|a|\to\infty} \Pr 1(a) = \Gamma(0) = \frac{1}{2}$.

To prove that $\theta_1^* < \theta_2^*$, suppose by contradiction that $\theta_1^* \geq \theta_2^*$. In that case, at least 50% of every ability type enter Contest 2. As a result, the number of winners in Contest 2 is greater than the number of winners in Contest 1. This is inconsistent with equilibrium because, by assumption, $m_1 > m_2$.

Because $\theta_1^* < \theta_2^*$ while the contests are otherwise identical in all payoff relevant dimensions, we have that $\Pr 1(a) > 1/2$ for all a.

For $\theta_1^* < \theta_2^*$ we know from Lemma 2 that $l(a)$ is strictly decreasing, taking on values on either side of 1. Equation (4) then implies that $\pi_1^* - \pi_2^*$ is inverse-U-shaped in a. By monotonicity of Γ, the same holds for $\Pr 1(a)$. ■

Proof of Proposition 9: Analogous to the proof of Proposition 6. ■

Proof of Proposition 10: For $\rho \to 0$, consider a convergent (sub)sequence of equilibria with limit standards (θ_1^*, θ_2^*). First notice that, in the limit, $\theta_1^* = \theta_2^* = \theta^*$. Otherwise, when $\rho \to 0$, all individuals would enter the contest with the lower performance standard. This is inconsistent with both contests being competitive.

Assuming that $\Pr 1(a)$ converges when $\rho \to 0$, the propensity to enter Contest 1 in the limit is

$$\lim_{\rho\to 0} \Pr 1(a) = \Gamma\left[v \lim_{\rho\to 0} \frac{\bar{F}\left(\frac{\theta_1^*(\rho) - a}{\sigma}\right) - \bar{F}\left(\frac{\theta_2^*(\rho) - a}{\sigma}\right)}{\rho}\right] \ .$$

Applying l'Hôpital's rule we get

$$\lim_{\rho\to 0} \Pr 1(a) = \Gamma\left[\frac{v}{\sigma} f\left(\frac{\theta^* - a}{\sigma}\right) \lim_{\rho\to 0}\left(\frac{d\theta_2^*}{d\rho} - \frac{d\theta_1^*}{d\rho}\right)\right] \ . \tag{15}$$

It remains to prove that $\frac{d\theta_2^*}{d\rho} - \frac{d\theta_1^*}{d\rho} \to c$, $0 < c < \infty$, when $\rho \to 0$. First, by contradiction, suppose that there exist multiple convergence points c_1, c_2, where, wlog, $c_1 < c_2$. From equation (15) it then follows that, in the limit with convergence point c_2, a larger fraction of every ability type enters Contest 1 than in the limit with convergence point c_1. In turn, this means that there are strictly more winner under c_2 than under c_1. Hence, market clearing is violated either for c_1 or c_2. We may conclude that, in fact, $c_1 = c_2$.

Next, suppose that $c \leq 0$ or $c = \infty$. If $c \leq 0$ then, in the limit, less than 50% of each ability type enter Contest 1. Because $m_1 > m_2$, this would imply that $\theta_1^* < \theta_2^*$, contradicting our conclusion above that $\theta_1^* = \theta_2^* = \theta^*$. If $c = \infty$ then, in the limit, almost everybody enters Contest 1, contradicting our result above that both contests are competitive. ■

Selection: Value of Prizes

Proof of Proposition 11:

1) The proof is analogous to that of Proposition 5 part 3).

2) Trivial.

3) Suppose, without loss of generality, that $v_1 > v_2$. Part 1) then implies that $\theta_1^* > \theta_2^*$. In turn, we may apply Lemma 2 to conclude that $l'(a) > 0$. Next, recall that $d(\pi_1^* - \pi_2^*)/da = \frac{1}{\sigma} f\left(\frac{\theta_2^* - a}{\sigma}\right)[l(a)v_1 - v_2]$. Hence, for $v_2/v_1 \in (\underline{l}, \overline{l})$, $d(\pi_1^* - \pi_2^*)/da$ single-crosses zero from below, which makes $\pi_1^* - \pi_2^*$ and $\Pr 1(a)$ U-shaped in a. Now recall from part 2) that $\lim_{a \to -\infty} \Pr 1(a) = 1/2$ and $\lim_{a \to \infty} \Pr 1(a) = \Gamma\left(\frac{v_1 - v_2}{\rho}\right) > 1/2$, where the inequality follows from $v_1 > v_2$. Combining the U-shapedness of $\Pr 1(a)$ with these limit values implies parts *i)* and *ii)*. Part *iii)* is proved by example. Let $a \sim N(0,1)$, $\delta \sim N(0, .05)$, $\varepsilon_i \sim Logistic(0, .6)$, $m_i = .1$, $w_i = 1$, $i \in \{1, 2\}$ and $v_2 = 1$. If $v_1 = 2$, then $(\theta_1^*, \theta_2^*) = (1.54, .91)$ and $\Pr 1 = .44 < .56 = \Pr 2$. If $v_1 = 5$, then $(\theta_1^*, \theta_2^*) = (1.73, .47)$ and $\Pr 1 = .51 > .41 = \Pr 2$.

4) From Lemma 2 we know that $\underline{l} < 1$. Hence, if $v_2/v_1 < \underline{l}$, then $v_1 > v_2$. By part 1), $\theta_1^* > \theta_2^*$. By the expression for $d(\pi_1^* - \pi_2^*)/da$ above, if $v_2/v_1 < \underline{l}$, then $\pi_1^* - \pi_2^*$ and $\Pr 1(a)$ are strictly increasing in a. An analogous proof holds for $v_2/v_1 > \overline{l} > 1$. Finally, to see that $\Pr i(a) > 1/2$, combine part 2) with the observation that $\Pr 1(a)$ is strictly increasing in a. ■

Proof of Proposition 12: For $\rho \to 0$, consider a converging (sub)sequence of equilibria with limit standards $(\theta_1^*, \theta_2^*) \in [-\infty, \infty)^2$. For a given value of ρ, let $a_i(p_i; \rho)$ denote the ability of an individual in the p_i-th percentile of Contest i. (Formally, $a_i(p_i; \rho) \equiv G_i^{-1}(p_i; \rho)$.) From Proposition 13 (below) we know that sorting becomes "perfect" in the limit, i.e. individuals choose to enter the contest with the higher prize iff their ability exceeds $\hat{a}$. Hence, $\lim_{\rho \to 0} a_1(p_1; \rho) > \hat{a} > \lim_{\rho \to 0} a_2(p_2; \rho)$. By continuity, $a_1(p_1; \rho) > \hat{a} > a_2(p_2; \rho)$ continues to hold for ρ sufficiently small. This proves the claim. ■

Proof of Proposition 13: First suppose that $v_2/v_1 \in \left(\underline{l}, \overline{l}\right)$. For v_i and v_j sufficiently close such that both contests are competitive in the limit, consider a converging (sub)sequence of equilibria with limit standards $(\theta_1^*, \theta_2^*) \in (-\infty, \infty)^2$. Because $\theta_1^*, \theta_2^* > -\infty$, the same arguments as in the proof of part 3) of Proposition 11 imply that, for $\rho \to 0$, there continues to exist an $\hat{a} \in \mathbb{R}$ such that $\pi_1^*(a) - \pi_2^*(a) \overset{(<)}{>} 0$ iff $a \overset{(<)}{>} \hat{a}$. Hence, in the limit, (almost) all $a \overset{(<)}{>} \hat{a}$ enter contest $\overset{(2)}{1}$.

When $v_2/v_1 \notin \left[\underline{l}, \overline{l}\right]$, it is never the case that both contests are competitive in the limit. To see this, suppose by contradiction that both contests remain competitive. In that case, part 4) of Proposition 11 continues to hold and, therefore, $\pi_i^*(a) - \pi_j^*(a) > 0$ for all a. Hence, everybody enters the high-prize contest when $\rho \to 0$. Contradiction. ■

Selection: Meritocracy

Let $f_i \equiv f\left(\frac{\theta_i - a}{\sigma_i}\right)$ and let f_i' denote the derivative of f_i with respect to its argument $\eta_i(a) \equiv \frac{\theta_i - a}{\sigma_i}$.

Lemma 7 *If $\sigma_1 < \sigma_2$, then $\lim_{|a|\to\infty} \lambda(a) = 0$ for all a.*

Proof Notice that $\lim_{|a|\to\infty} \lambda(a) = 0$ is equivalent to

$$\lim_{|a|\to\infty} \log \frac{f[\eta_1(a)]}{f[\eta_2(a)]} = \lim_{|a|\to\infty} \log f[\eta_1(a)] - \log f[\eta_2(a)] = -\infty .$$

Now consider the two cases:

1) $\eta_1(a) \geq \eta_2(a)$: Then, by concavity of $\log f$,

$$\log f_1 - \log f_2 \leq f_2'/f_2 \cdot [\eta_1(a) - \eta_2(a)] \ . \tag{16}$$

Hence, it suffices to show that the RHS goes to $-\infty$ when $|a| \to \infty$.

First notice that $\lim_{a\to\infty} \eta_1(a) - \eta_2(a) = -\infty$ and $\lim_{a\to-\infty} \eta_1(a) - \eta_2(a) = \infty$. Next notice that, by continuity of f, $\lim_{|a|\to\infty} f = 0$, such that $\lim_{|a|\to\infty} \log f = -\infty$. Hence, there must be an argument η_0 and a $\beta > 0$ such that $d\log f/d\eta|_{\eta=\eta_0} < -\beta$. By strict concavity of $\log f$, it follows that $d\log f/d\eta < d\log f/d\eta|_{\eta=\eta_0} < -\beta$ for all $\eta > \eta_0$. Hence, $d\log f/d\eta = f'/f$ is strictly negative and bounded away from zero for $\eta \to \infty$. Similarly, there must be an argument η_0' and a $\beta > 0$ such that $d\log f/d\eta|_{\eta=\eta_0'} > \beta$. By strict concavity of $\log f$, $d\log f/d\eta > \beta$ for all $\eta < \eta_0'$. Hence, $d\log f/d\eta = f'/f$ is strictly positive and bounded away from zero when $\eta \to -\infty$.

It then follows that the RHS of equation (16) must go to minus infinity when $|a| \to \infty$.

2) $\eta_1(a) \leq \eta_2(a)$: Then,

$$\log f_2 - \log f_1 \geq f_2'/f_2 \cdot [\eta_2(a) - \eta_1(a)] \ ,$$

where the inequality follows from concavity of $\log f$. This is equivalent to

$$\log f_1 - \log f_2 \leq f_2'/f_2 \cdot [\eta_1(a) - \eta_2(a)] \ .$$

Now an analogous argument as in 1) establishes the required limit inequality. ■

Proof of Lemma 3: The proof of Lemma 3 consists of a sequence of lemmas.

First, we derive the FOC for an ability type to constitute an extremum of $\lambda(a)$.

Lemma 8 *Ability $a' \in (-\infty, \infty)$ produces an extremum of $\lambda(a)$ only if*

$$\sigma_2 f_1'/f_1 = \sigma_1 f_2'/f_2 \ . \tag{17}$$

Proof Differentiating $\lambda(a)$ with respect to a reveals

$$\frac{\partial \lambda(a)}{\partial a} = \frac{-f_1' f_2/\sigma_1 + f_2' f_1/\sigma_2}{(f_2)^2} \ .$$

At an interior extremum, $\frac{\partial \lambda(a)}{\partial a} = 0$ and, hence,

$$f_2' f_1 \sigma_1 = f_1' f_2 \sigma_2 \ .$$

Rearranging yields equation (17). ■

Next, we establish some further properties that must hold at an ability type giving rise to an extremum of $\lambda(a)$.

Lemma 9 *Let $\sigma_1 < \sigma_2$. At an ability a' producing an interior extremum of $\lambda(a)$:*

1. *$sign(f_1'/f_1) = sign(f_2'/f_2)$.*

2. *If $f_i'/f_i > 0$ then $f_1'/f_1 < f_2'/f_2$. Else if $f_i'/f_i < 0$ then $f_1'/f_1 > f_2'/f_2$.*

Proof Both assertions follow immediately from the FOC (17). ■

The second part of Lemma 9 and strict log-concavity of density f now imply:

Lemma 10 *Let $\sigma_1 < \sigma_2$. At an ability a' producing an interior extremum of $\lambda(a)$, $f_i'/f_i \lesseqgtr 0$ iff $\eta_1(a) \lesseqgtr \eta_2(a)$.*

Next we derive a necessary and sufficient condition for an interior extremum of $\lambda(a)$ to be a maximum.

Lemma 11 *Let $\sigma_1 < \sigma_2$. An interior extremum of $\lambda(a)$ is a maximum iff, at its argument a',*

$$\frac{f_1''}{f_1'} / \frac{f_1'}{f_1} < \frac{f_2''}{f_2'} / \frac{f_2'}{f_2} \ .$$

Proof Let a' gives rise to an interior extremum of $\lambda(a)$. Then

$$\lambda''(a)\big|_{a=a'} = \frac{f_2 f_1''/\sigma_1^2 - f_1 f_2''/\sigma_2^2}{(f_2)^2} \ ,$$

where we used the FOC (17) to simplify the numerator. Hence, $\lambda(a')$ is a maximum iff

$$f_2 f_1''/\sigma_1^2 - f_1 f_2''/\sigma_2^2 < 0 \ .$$

Since $f_i > 0$, this condition is equivalent to

$$\sigma_2^2 \frac{f_1''}{f_1'} \frac{f_1'}{f_1} < \sigma_1^2 \frac{f_2''}{f_2'} \frac{f_2'}{f_2} \tag{18}$$

From Lemma 8 we know that, at a', f_1'/f_1 takes the same sign as f_2'/f_2. Hence, there are only two cases to consider, depending upon the sign of f_i'/f_i at a'.

Case 1: $f_i'/f_i > 0$

We may then rewrite the inequality in (18) as

$$\frac{\sigma_2^2}{\sigma_1^2} \frac{f_1''}{f_1'} \frac{f_1'}{f_1} / \frac{f_2'}{f_2} < \frac{f_2''}{f_2'} \ ,$$

which is equivalent to

$$\frac{\sigma_2^2}{\sigma_1^2} \frac{f_1''}{f_1'} \left(\frac{f_1'}{f_1} / \frac{f_2'}{f_2} \right)^2 \frac{f_2'}{f_2} / \frac{f_1'}{f_1} < \frac{f_2''}{f_2'} \ .$$

Since a' produces an extremum, we may substitute for $\frac{f_1'}{f_1}$ using equation (17) to obtain

$$\frac{f_1''}{f_1'} \frac{f_2'}{f_2} / \frac{f_1'}{f_1} < \frac{f_2''}{f_2'} \ .$$

Once more using that $f_i'/f_i > 0$, the required inequality becomes

$$\frac{f_1''}{f_1'}/\frac{f_1'}{f_1} < \frac{f_2''}{f_2'}/\frac{f_2'}{f_2}\ .$$

Case 2: $f_i'/f_i < 0$

The argument is analogous to Case 1. ■

Lemma 12 *Let $\sigma_1 < \sigma_2$ and suppose Condition 1 holds. Then an extremum of $\lambda(a)$ is a maximum.*

Proof Recall from Lemma 8 that, at an ability a' producing an extremum of $\lambda(a)$, f_1'/f_1 takes the same sign as f_2'/f_2. Hence, there are only two cases to consider, depending upon the sign of f_i'/f_i at a'.

Case 1: $f_i'/f_i > 0$

In that case, it follows from Lemma 10 that $0 > \eta_1(a) > \eta_2(a)$. Because, by Condition 1, $\frac{f_i''}{f_i'}/\frac{f_i'}{f_i}$ is strictly decreasing in that range, it then follows that

$$\frac{f_1''}{f_1'}/\frac{f_1'}{f_1} < \frac{f_2''}{f_2'}/\frac{f_2'}{f_2}\ .$$

The result now follows from Lemma 11.

Case 2: $f_i'/f_i < 0$

The argument is analogous to Case 1. ■

Finally, it remains to show that

Lemma 13 *An interior extremum of $\lambda(a)$ always exists.*

Proof Wlog, assume that $\sigma_1 < \sigma_2$.

Fact 1: The unique value of a for which $\eta_1(a) = \eta_2(a)$ is $\tilde{a} = \frac{\sigma_2\theta_1 - \sigma_1\theta_2}{\sigma_2 - \sigma_1}$.

This follows directly from solving $\eta_1(a) = \eta_2(a)$ for a.

Fact 2: $\eta_1(a) - \eta_2(a)$ exhibits decreasing differences in a.

Observe that

$$\eta_1(a) - \eta_2(a) = \frac{\theta_1 - a}{\sigma_1} - \frac{\theta_2 - a}{\sigma_2} = \frac{\theta_1\sigma_2 - \theta_2\sigma_1 - (\sigma_2 - \sigma_1)a}{\sigma_1\sigma_2}\ . \qquad (19)$$

Because $\sigma_1 < \sigma_2$, we have $\frac{d}{da}[\eta_1(a) - \eta_2(a)] < 0$.

Fact 3: $\eta_1(a) < \eta_2(a)$ iff $a > \tilde{a}$

This follows from Facts 1 and 2.

Fact 4. Iff $a > \theta_i$, then $\frac{f_i'}{f_i} > 0$, $i = 1, 2$.

Follows from the fact that f is single-peaked and achieves a maximum at zero.

From these facts we may deduce:

Claim 1: For all $a > \max(\theta_1, \theta_2, \tilde{a})$,

$$\sigma_1 f_2'/f_2 - \sigma_2 f_1'/f_1 < 0 \ .$$

Proof: Fact 3 implies that for all $a > \max(\theta_1, \theta_2, \tilde{a})$, we have $\eta_1(a) < \eta_2(a)$. From the log-concavity of f we may then conclude that, for these values of a, $f_1'/f_1 > f_2'/f_2$. Fact 4 implies that for all $a > \max(\theta_1, \theta_2, \tilde{a})$, we also have $f_i'/f_i > 0$, $i = 1, 2$. Therefore, $f_1'/f_1 > f_2'/f_2 > 0$. Because $\sigma_1 < \sigma_2$ by assumption, we may conclude that $\sigma_2 f_1'/f_1 > \sigma_1 f_2'/f_2$. QED.

Claim 2: For a sufficiently small

$$\sigma_1 f_2'/f_2 - \sigma_2 f_1'/f_1 > 0$$

Proof: Recall from the proof of Lemma 7 that $\lim_{a\to-\infty} f_i'/f_i$ stays bounded away from zero.

i) If $\lim_{a\to-\infty} f_i'/f_i \to -K$ for some finite constant $K > 0$, then it may be readily shown that

$$\lim_{a\to-\infty} \sigma_1 f_2'/f_2 - \sigma_2 f_1'/f_1 = (\sigma_2 - \sigma_1) K > 0 \ .$$

ii) If $\lim_{a\to-\infty} f_i'/f_i \to -\infty$, then we claim that, for a sufficiently small,

$$\sigma_1 f_2'/f_2 - \sigma_2 f_1'/f_1 > 0 \ .$$

To see why, notice that $\lim_{a\to-\infty} \eta_1(a) - \eta_2(a) = \infty$ by equation (19), while f_i'/f_i is strictly decreasing in η_i by strict log-concavity of f. Furthermore, by Fact 4, $f_i'/f_i < 0$ for a sufficiently small. Together with $\sigma_1 < \sigma_2$ this implies that the second (negative) term always dominates the first (negative) term. Hence, $\sigma_1 f_2'/f_2 - \sigma_2 f_1'/f_1 > 0$.

iii) Even if f_i'/f_i does not converge when $a \to -\infty$, it must have a convergent subsequence. Repeating the above argument for every convergent subsequence guarantees an interior extremum. QED.

Existence of an extremum now follows from Claims 1 and 2, and the Intermediate Value Theorem. ■

Together, Lemmas 12 and 13 imply Lemma 3. ■

Proof of Proposition 14:

1) and **2)** are proved in the main text.

3) In the limit for $\rho \to 0$, agents enter Contest 1 iff $a > \tilde{a}$. (The proof of this claim is analogous to the proof of Proposition 13 and omitted.) Hence, in the limit, $\Pr 1 = 1 - G(\tilde{a})$ and $\Pr 2 = G(\tilde{a})$.

Now suppose by contradiction that $\Pr 1 = 1 - G(\tilde{a}) \geq 1/2$ for $\rho \to 0$. Then,

$$\begin{aligned} m &= \int_{\tilde{a}}^{\infty} \bar{F}\left(\frac{\theta_1^* - a}{\sigma}\right) g(a)\, da > \bar{F}\left(\frac{\theta_1^* - \tilde{a}}{\sigma}\right) \Pr 1 = \bar{F}\left(\frac{\theta_2^* - \tilde{a}}{\sigma}\right) \Pr 1 \\ &\geq \bar{F}\left(\frac{\theta_2^* - \tilde{a}}{\sigma}\right) \Pr 2 > \int_{-\infty}^{\tilde{a}} \bar{F}\left(\frac{\theta_2^* - a}{\sigma}\right) g(a)\, da = m \ , \end{aligned}$$

where we have used that the chance of winning is strictly increasing in a and, at $\tilde{a}$, the same across contests. Contradiction. Hence, in the limit for $\rho \to 0$, $\Pr 1 < 1/2$.

Finally, by continuity of $\Pr i$ in ρ, the "exclusivity" of Contest 1 extends to a neighborhood of ρ around zero.

4) We establish the result by example. Let $a \sim N(0,1)$, $\varepsilon_i \sim N(0, \sigma_i^2)$, $\delta \sim N(0, \rho^2)$, $v = w = 1$, $(\sigma_1, \sigma_2) = (0.5, 1)$, and $\rho = 0.1$. If $m = 0.2$, then $\theta_1^* = 0.51 > 0.40 = \theta_2^*$. If $m = 0.1$, then $\theta_1^* = 1.15 < 1.21 = \theta_2^*$. Hence, θ_1^* and θ_2^* cannot be ranked.

5) This claim follows immediately from the expression for $d(\pi_1^* - \pi_2^*)/da$ in equation (7), single-peakedness of $\lambda(a)$ proved in Lemma 3, $\lim_{|a| \to \infty} \lambda(a) = 0$ proved in Lemma 7, and the fact that $\bar{\lambda} > 1 > \frac{\sigma_1}{\sigma_2}$. ■

Selection: Equally Meritocratic Contests

Proof of Proposition 15:

1) Trivial.

2) Recall that $\frac{d(\pi_1^* - \pi_2^*)}{da} = \frac{v_1}{\sigma} f\left(\frac{\theta_2^* - a}{\sigma}\right)\left[l(a) - \frac{v_2}{v_1}\right]$ while, from Lemma 2, we know that $l'(a) \gtreqless 0$ iff $\theta_1^* \gtreqless \theta_2^*$. Hence, if $v_2/v_1 \in (\underline{l}, \bar{l})$, then $\pi_1^*(a) - \pi_2^*(a)$ is single-peaked, taking on a minimum iff $\theta_1^* > \theta_2^*$. Finally, by monotonicity of $\Pr 1(a)$ in $\pi_1^*(a) - \pi_2^*(a)$, $\Pr 1(a)$ inherits these properties.

3) If $v_2/v_1 < \underline{l}$, then $\frac{d(\pi_1^* - \pi_2^*)}{da} = \frac{v_1}{\sigma} f\left(\frac{\theta_2^* - a}{\sigma}\right)\left[l(a) - \frac{v_2}{v_1}\right] > 0$ for all a. If $v_2/v_1 > \bar{l}$, then $d(\pi_1^* - \pi_2^*)/da < 0$ for all a. By monotonicity of Γ, the same holds for $\Pr 1(a)$. ■

Selection: Differentially Meritocratic Contests

Proof of Proposition 16:

1) Trivial.

2) Recall that $\frac{d\left(\pi_1^*-\pi_2^*\right)}{da} = f\left(\frac{\theta_2^*-a}{\sigma_2}\right)\left[\lambda\left(a\right) - \frac{v_2/v_1}{\sigma_2/\sigma_1}\right]\frac{v_1}{\sigma_1}$. From Lemma 3 we know that $\lambda\left(a\right)$ is single-peaked, while from Lemma 7 we know that $\lambda\left(a\right)$ converges to zero in the tails. Hence, if $\frac{v_2/v_1}{\sigma_2/\sigma_1} < \overline{\lambda}$, $d\left(\pi_1^* - \pi_2^*\right)/da$ is U-shaped, crossing the x-axis twice, first from below and then from above. In turn, this implies that $\pi_1^*\left(a\right) - \pi_2^*\left(a\right)$ and $\Pr 1\left(a\right)$ have the shape claimed in the proposition. If $\frac{v_2/v_1}{\sigma_2/\sigma_1} > \overline{\lambda}$, then $d\left(\pi_1^* - \pi_2^*\right)/da < 0$. Hence, $\pi_1^*\left(a\right) - \pi_2^*\left(a\right)$ and $\Pr 1\left(a\right)$ are strictly decreasing in ability. ■

Endogenous Effort: Equilibrium

The following lemma is a useful building block in proving that, also in the model with endogenous effort, each H_i induces a uniquely determined θ_i.

Lemma 14 *Properties of $x\left(a,\theta\right)$:*

1. *$\frac{dx(a\,,\theta)}{d\theta}$ is bounded strictly below 1. Formally, there exists a $\zeta > 0$ such that $\frac{dx(a\,,\theta)}{d\theta} < 1-\zeta$ for all $x \in \mathbb{R}$.*

2. *For all 'a', $\lim_{\theta\to\infty}\theta - x\left(a\,,\theta\right) = \infty$ and $\lim_{\theta\to-\infty}\theta - x\left(a,\theta\right) = -\infty$.*

Proof 1) Implicitly differentiating the FOC for optimal effort we get

$$\frac{dx\left(a\,,\theta\right)}{d\theta} = \frac{vf'}{vf' + \frac{\partial^2 c(x,a)}{(\partial x)^2}}\ .$$

Recall that the denominator of this expression is positive by the SOC. The result then follows from the f' being bounded and $\frac{\partial^2 c(x,a)}{(\partial x)^2}$ being bounded away from zero.

2) The FOC and single-peakedness of f around zero imply that

$$\frac{\partial c}{\partial x} \leq f\left(0\right)v$$

and, therefore,

$$x \leq \left(\frac{\partial c}{\partial x}\right)^{-1}\left[f\left(0\right)v\right]\ .$$

where $\left(\frac{\partial c}{\partial x}\right)^{-1}[\cdot]$ denotes the inverse of $\partial c/\partial x$ with respect to x. Hence, x is bounded and $\lim_{\theta\to\infty}\theta - x\left(a\,,\theta\right) = \infty$.

Next notice that

$$\frac{d}{d\theta}\left[\theta - x\left(a\,,\theta\right)\right] = 1 - \frac{dx\left(a\,,\theta\right)}{d\theta}\ .$$

Part 1) implies that $\frac{d}{d\theta}\left[\theta - x\left(a\,,\theta\right)\right]$ is strictly positive and bounded away from zero. Hence, $\lim_{\theta\to-\infty}\theta - x\left(a\,,\theta\right) = -\infty$. ■

Lemma 14 allows us to show that standards are unique. Formally,

Lemma 15 *In a contest with endogenous effort, there exists a unique equilibrium standard θ_i for every H_i.*

Proof If H_i is such that $H_i(\infty) \leq m_i$, then all individual win a prize and $\theta_i = -\infty$.

If $H_i(\infty) > m_i$, then the equilibrium standard θ_i solves

$$W_i(\theta_i) = \int_{-\infty}^{\infty} \bar{F}\left[\frac{\theta_i - x_i(a,\theta_i)}{\sigma_i}\right] dH_i(a) = m_i \ . \tag{20}$$

An implication of Lemma 14 part 2) is that $W_i(\theta_i) \to H_i(\infty) > m_i$ when $\theta_i \to -\infty$, and $W_i(\theta_i) \to 0 < m_i$ when $\theta_i \to \infty$. Continuity of $W_i(\theta)$ in θ_i and the intermediate value theorem then imply that there exists a θ_i such that equation (20) holds.

To prove uniqueness it suffices to show that $W_i(\theta_i)$ is strictly decreasing in θ_i. By 14 part 1), $dx_i/d\theta_i < 1$. Hence,

$$\frac{d}{d\theta_i}\int_{-\infty}^{\infty} \bar{F}\left[\frac{\theta_i - x_i(a,\theta_i)}{\sigma_i}\right] dH_i(a) = -\int_{-\infty}^{\infty} \frac{1}{\sigma_i} f\left[\frac{\theta_i - x_i(a,\theta_i)}{\sigma_i}\right]\left[1 - \frac{dx_i(a,\theta_i)}{d\theta_i}\right] dH_i(a) < 0 \ .$$

■

We are now in a position to prove Proposition 17.

Proof of Proposition 17: From Lemma 15 we know that there exists a unique equilibrium standard θ_i for every H_i. All the other steps in the proof of Proposition 17 are identical to those in the exogenous-effort model analyzed earlier. ■

Endogenous Effort: Sorting

Proof of Proposition 18: The result follows from the fact that, in a neighborhood of a symmetric baseline, we may reinterpret an individual's endogenous equilibrium effort as his exogenous ability type, and treat the problem as one of pure selection without effort. This transformation is justified as follows:

(1) In a symmetric baseline, equilibrium effort of each ability type is the same across contests. Since effort is strictly increasing in ability, this implies that there exists a unique mapping from effort to ability, and vice versa.

(2) Since effort is the same in both contests, the cost of effort differences out when calculating the payoff difference across contests in a symmetric baseline.

(3) The envelope theorem implies that, in a neighborhood of structural parameters around a symmetric baseline, we may ignore changes in equilibrium effort when calculating payoff differences across contests. Hence, in such a neighborhood, we can reinterpret (endogenous) equilibrium effort in the symmetric baseline as a (new, but still exogenous) ability type.

Together, these observations imply that, in a neighborhood of a symmetric baseline, the model with endogenous effort is isomorphic to one with exogenous ability/effort types. Hence, all selection results carry over. ■

Endogenous Effort: Across Contests

Proof of Lemma 4: First notice that $d\Pr 1(a)/da$ takes on the same sign as $d(\pi_1^* - \pi_2^*)/da$. Next observe that, by the envelope theorem,

$$\frac{d(\pi_1^* - \pi_2^*)}{da} = \frac{\partial c[x_1^*(a), a]}{\partial a} - \frac{\partial c[x_2^*(a), a]}{\partial a} = \int_{x_2^*(a)}^{x_1^*(a)} \frac{d^2 c(x, a)}{dxda} dx \ .$$

Finally, recall that $d^2 c(x, a)/(dxda)$ is strictly negative by assumption. Hence, $d(\pi_1^* - \pi_2^*)/da$ takes on the same sign as $x_1^*(a) - x_2^*(a)$. ■

B Competitive versus Uncompetitive Contests

In this appendix we derive some results regarding the (un)competitiveness of contests. We begin by identifying situations where only one of the contests is competitive. For w and v, competitiveness turns on the intuitive condition that the difference between contests should not be too large. For example, if Contest 1 offers an enormous show-up fee relative to Contest 2, Contest 1 will attract so many entrants that Contest 2 becomes uncompetitive.

The other two parameters, m and σ, do not (necessarily) have this property. In the case of discriminatoriness, this is intuitive: all else equal, there is little reason to expect one or the other contest to become uncompetitive due to a difference in discriminatoriness. For a difference in the number of prizes, we show that both contests remain competitive provided pecuniary factors dominate. The intuition is as follows. If contestants mainly care about money, small differences in standards are sufficient to induce large differences in entry across contests. Therefore, the endogenous adjustment of standards in response to a difference in the number of prizes suffices to maintain competitiveness of both contests.

The following lemmas formalize these intuitions by stipulating conditions such that one of the contests becomes *uncompetitive* in the case of w and v, or both contests remain *competitive* in the case of σ and m. For the result for w and v, the "all else equal" condition is not needed, i.e., parameters in the two contests can be arbitrary. Formally,

Lemma 16 *Fix all structural parameters save w_1 (v_1). For w_1 (v_1) sufficiently large, Contest 2 is uncompetitive.*

Proof Notice that

$$\begin{aligned}\lim_{v_1\to\infty}\Pr 2 &= 1-\int_{-\infty}^{\infty}\lim_{v_1\to\infty}\Gamma\left\{\frac{1}{\rho}\left[w_1-w_2+v_1\bar{F}\left(\frac{\theta_1^*-a}{\sigma_1}\right)-v_2\bar{F}\left(\frac{\theta_2^*-a}{\sigma_2}\right)\right]\right\}g(a)\,da\\ &\le 1-\int_{-\infty}^{\infty}\lim_{v_1\to\infty}\Gamma\left\{\frac{1}{\rho}\left[w_1-w_2+v_1\bar{F}\left(\frac{\hat{\theta}_1-a}{\sigma_1}\right)-v_2\right]\right\}g(a)\,da=1-1=0\ ,\end{aligned}$$

where $\hat{\theta}_1$ denotes the (finite) market clearing threshold if everybody entered Contest 1. Hence, for v_1 sufficiently large, $\Pr 2 < m_2$, such that Contest 2 is uncompetitive.

The argument for w_1 is analogous. ■

For differences in σ and m, the next two results provide conditions that ensure that both contests remain competitive. Obviously, such results cannot be obtained for arbitrary parameter values since, for sufficiently large differences in w or v, one contest is uncompetitive. Accordingly, we restrict attention to the "all else equal" case. Formally,

Lemma 17 *Suppose the two contests are identical save for their level of discriminatoriness. For all $(\sigma_1,\sigma_2)\in(0,\infty)^2$, both contests are competitive.*

Proof Suppose not. Then the standard in the uncompetitive contest is $-\infty$. Hence, all agents monetarily prefer this contest. As a result, more than 50% of each ability type enter. However, this is inconsistent with this contest being uncompetitive because $2m<1\Leftrightarrow m<1/2$. Contradiction. ■

If there is an imbalance in the number of prizes across contests, pecuniary considerations must come sufficiently to the fore for both contests to be competitive. The reason is that, when non-pecuniary motives dominate, each contest attracts roughly half of most ability types. Formally,

Lemma 18 *Suppose the two contests are identical save for the number of prizes. For any (m_1,m_2) such that $m_1+m_2<1$, both contests are competitive if ρ is sufficiently small.*

Proof Suppose by contradiction that Contest 2, say, is uncompetitive for ρ sufficiently small. Then $\theta_2^*=-\infty$, while $\theta_1^*>-\infty$ because prizes are scarce in the aggregate. Since $w_2=w_1$ and $v_2=v_1$, $\Pr 2$ becomes

$$\Pr 2 = 1-\Gamma\left\{-v/\rho\left[1-\bar{F}\left(\frac{\theta_1^*-a}{\sigma_1}\right)\right]\right\}\ .$$

Next, we claim that $\lim_{\rho\to 0}\theta_1^*(\rho)>-\infty$. To see this, suppose to the contrary that $\lim_{\rho\to 0}\theta_1^*(\rho)=-\infty$. Let $W(\rho)=W_1(\rho)+W_2(\rho)$, i.e., $W(\rho)$ is the sum total of winners in both contests for a given value of ρ. Since $\lim_{\rho\to 0}\theta_1^*(\rho) = -\infty$ and Contest 2 is uncompetitive by assumption, we have $\lim_{\rho\to 0} W(\rho) = 1 > m_1 + m_2$. But this contradicts the notion that $\theta_1^*(\rho)$ is an equilibrium standard. Hence, $\lim_{\rho\to 0}\theta_1^*(\rho) > -\infty$ and Contest 1 is competitive. $\blacksquare$