

Investigating a cover up:

an experimental study

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Political investigation and cover-ups

- Distinctive features:
 - investigations may resolve issue at hand + reveal information in other issues
 - successful investigations –produce dispositive verdicts– depend both on evidence revealed and on investment into information acquisition
- Disclosure of information by politicians:
 - higher probability of dispositive evidence after investigation AND
 - higher probability that audience learns something else about them
- Good (bad) types have weaker incentives to reveal (hide)
- Model: endogenous information acquisition by a principal scrutinizing an agent who can choose how much evidence to reveal

Theory: a model of cover-up

- Two players: a (P)rincipal and an (A)gent
- As are of type (τ), where τ is correlated with θ (when P observes θ she learns something about τ)
- Payoffs:
 - A wants to stay in office
 - P wants to retain good agents
- Actions:
 - P chooses how much (costly c) information to acquire, i
 - A chooses how much evidence to reveal, r
 - After of investigation (m) is observed, P chooses whether to retain
- Investigation:
 - i & r determine the distribution of m
 - m can reveal τ , θ or nothing, \emptyset
 - $Pr(m = \theta)$ & $Pr(m = \tau)$ go up with r and i

1. Given $m = \emptyset$, posterior on τ is decreasing in i
 - The more rigorous the investigation, the more punitive P should be when $m = \emptyset$
 - Intuition: “demand effect”. *Worse* agents hide more and are more likely to produce $m = \emptyset$
2. Four types of A s induced by θ, τ have different strategies:
 - Good τ s in good $\theta \rightarrow$ (Dominant) Reveal (High r)
 - Bad τ s in good $\theta \rightarrow$ prefer to *mis-match*
 - Good τ in bad $\theta \rightarrow$ prefer to *match*
 - Bad τ s in bad $\theta \rightarrow$ (Dominant) Hide (Low r)
3. Varying c can change optimal retention choice when $m = \emptyset$
 - Higher $c \rightarrow$ lower i , (R)etain if $m = \emptyset$
 - Lower $c \rightarrow$ higher i , (F)ire if $m = \emptyset$

Picking apples (and covering them up)



1. Coin flip chooses barrel (θ) and then picks an apple (τ) for A and shows her.
2. P (uninformed) picks between i^H and i^L (paying c if i^H)
3. A sees i , and chooses r^H or r^L

$\Delta(m)$		
	i^L	i^H
r^L	$M = 0.1$	$M = 0.4$
	$B = 0.2$	$B = 0.4$
	$\emptyset = 0.7$	$\emptyset = 0.2$
r^H	$M = 0.2$	$M = 0.8$
	$B = 0.3$	$B = 0.2$
	$\emptyset = 0.5$	$\emptyset = 0$

Picking apples (and covering them up)



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2. P (uninformed) picks between i^H and i^L (paying c if i^H)
3. A sees i , and chooses r^H or r^L
4. m is generated by $\Delta(m)$ and shown to P
5. P chooses whether keep her partner's apple and gets \$ only if it's *good* (coin flip for \$ if she fires)
6. A gets \$ only if P keeps her apple

Experimental design

Lab Setup

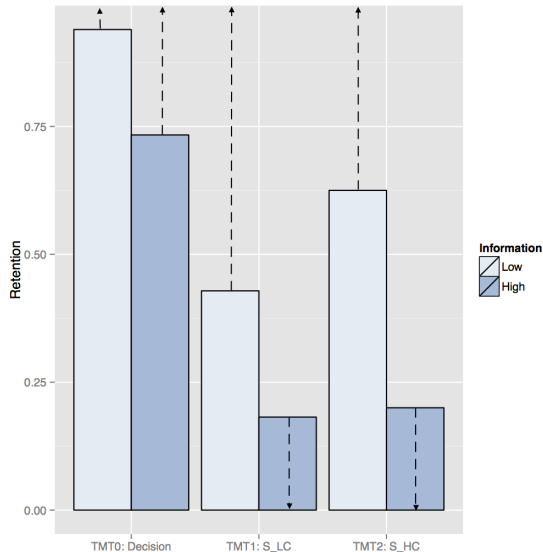
118 undergrad subjects, 5 sessions at ITAM (so far). Subjects alternate in roles between P s and A s for 20 rounds with random round payoffs.

Treatments

- **TMT0** Decision-theoretic. Agents are “sitting ducks”: choice of r is a coin flip, and payoffs are determined in the same way as in strategic treatments.
- **TMT1** Strategic low cost. Equilibrium: high investment (i^H) and if $m = \emptyset$, F
- **TMT2** Strategic high cost. Equilibrium: low investment (i^L) and if $m = \emptyset$, R

∀ **strategic TMTs**: given i^H & $m = \emptyset \rightarrow R$; given i^L & $m = \emptyset \rightarrow F$.

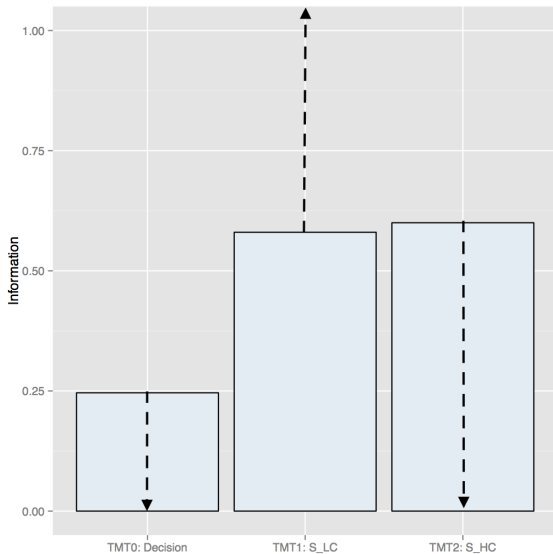
Results: Retain or fire?



Retention rate when $m = \emptyset$ by treatment and investment decision. Dotted line represents difference between empirical values and theoretical predictions ($\text{Per} > 5$).

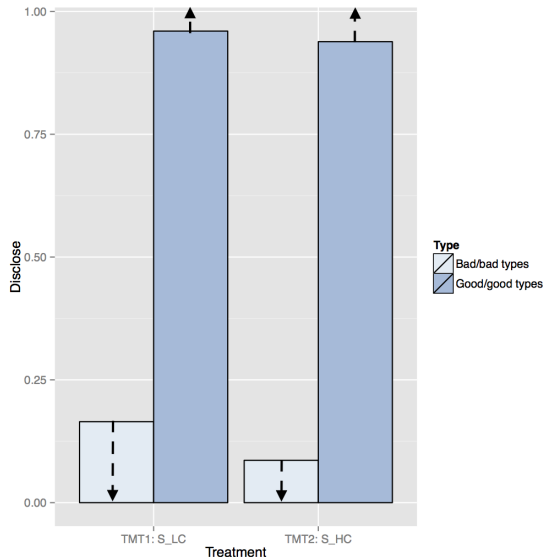
Results: Acquiring information

Information acquisition by treatment (Per > 5).



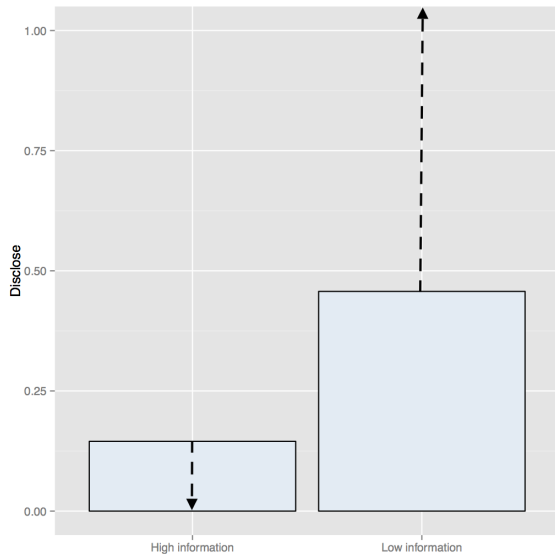
Results: Agents

Disclosure by treatment and agent type (Per > 5). Dominant strategies.



Results: Agents

Disclosure by
treatment and
agent type (Per
> 5). Mismatch.



Conclusion

- Experiment (so far) shows empirical evidence of behavioral plausibility of theory
- Relevance: this kind of inference is at play in various political institutions
 - Agents make “double gamble on revelation”
 - Often investigations are inconclusive but not necessarily uninformative
- Also: consistent with standard results (Dickson, Hafer, Landa (2009), Martinelli (2006))