

Abstract

Disagreements between players in a centipede game with financial incentives continue to be a topic of interest in the literature on interactive decision-making. In this paper, we investigate the role of cooperation. Invoking the concept of backward induction, we find that the game is counterintuitive. Our previous research showed that when the number of players in the centipede game is increased from two to three, the game is iterated in time, the players are rematched, and the stakes are unusually high, behavior approaches equilibrium play. Results from the present study show that reducing the size of the stakes elicits dramatically different patterns of behavior. We argue that when mutual trust is involved, the magnitude of financial incentives can induce a considerable difference.



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