

Delegation Based on Cheap Talk

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Abstract:

We study a real effort environment, where a delegator has to decide if and to whom to delegate a task. Delegating to a person who is better at the task increases welfare. Potential delegates send cheap-talk messages about their past performance before the delegator decides. We experimentally test the theoretical prediction that information transmission cannot occur. In our experiment, we vary the message space available to the delegates and compare the information transmitted and the level of efficiency. Depending on the treatment, the sender can either submit a number indicating how many tasks she solved previously, an interval in which the number of tasks falls, or a free text message. We observe that messages contain information in all treatments. Interestingly, information transmission occurs only in the treatments where messages are intervals or free text but not if messages are exact. The highest efficiency is obtained in the free-text treatment, as delegators are able to extract information contained in the different styles of messages sent by subjects with different abilities.