

# GROUP IDENTITY AND PEER-PRESSURE

## IN COMPETITIVE ENVIRONMENTS

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Although recent the concept of social identity has been rapidly used by social scientists to improve the understandings of individuals' behaviors. Its adoption by behavioral economists has been eased by a deeply documented literature in psychology since Tajfel and Turner (1979) seminal work. There has been a growing interest in the use of controlled experiment to address the role of identity in economic decisions. Experimental studies find evidence of ingroup favoritism in the context of dictator games (e.g. Chen and Li, 2009), prisoner's dilemma games (e.g. Berhardt *et al.*, 2006), trust games (e.g. Falk and Zehnder, 2013) or public good games (e.g. Charness *et al.*, 2014).

Our study contributes to this recent literature by exploring the effects of induced group identity on effort provision in a competitive framework. Our main game consists in inducing two identity groups (blue and red) and implementing competition between two working teams which are composed of a majority of blue (team B) or red members (team R). This framework allows a symmetric comparison of individuals' behaviors regarding two different identity statuses: insiders (i.e. cooperating with a majority of in-group members) and outsiders (i.e. cooperating with a majority of out-group members). Second, we isolate the effects of group identity from those of peer-pressure by varying the level of monitoring from group members (no monitoring; observation; observation coupled with punishment).

We implement a 2x3 factorial design that allows disentangling internalized social norms from peer-pressure and fear of retaliation by in-group members. Our treatments differ in two main dimensions. First, we isolate the impact of social identity on individual decision by varying the presence of group identity (*no identity* vs. *identity* treatments). Second, we implement peer-

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pressure by allowing in-group members to observe one's action (*observation* treatments) and to exert costly punishment (*punishment* treatments).

We derive predictions from an original model based on Akerlof and Kranton (2005) seminal paper. These theoretical predictions are overall confirmed by our data. We find that the presence of induced identity, even in the absence of peer-pressure, has a significant impact on individual decision. Participants tend to exert larger effort when matched with in-group members and opposed to out-group members. Allowing in-group members to observe one's decision of effort increases the impact of group identity. In this context, we also observe that outsiders, i.e. individuals performing with out-group members against in-group members, tend to lower their effort. However, the introduction of costly punishment has an opposite effect, and tend to lower the impact of group identity on effort decision. We also find evidence of gender differences in the response to the introduction of group identity.

**Keywords:** social identity, group competition, effort provision, laboratory experiment

**JEL Classification:** C91, C92, D03, J15

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