

Money or Friends?

Social Identity and Truth Telling in Social Networks

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Abstract

Extending Crawford and Sobel (1982), theory suggests (1) small incentives can reduce information transmitted between groups and (2) larger groups can be less likely to lie than smaller groups (Galeotti et al, 2012). These results demonstrate how monetary incentives change the information transmitted in a strategic environment. Information transmission in natural environments, however, includes both monetary and social incentives. Unfortunately, little is known about how these two effects interact to determine truth-telling. We investigate how money and social identity impact truth-telling in a laboratory experiment. Absent social identity, players' choices are highly consistent with the theoretical predictions. In the presence of social identity, people are willing to sacrifice monetary gains in order to avoid lying to ingroup members. On the other hand, they lie more to out-group members. Our results are consistent with parochial altruism, a behavioral phenomenon that has been found in many social settings (Bernhard et al, 2006). Our results that parochial altruism impacts information transmission networks may have important implications for many social environments, especially those where players in different monetary alliances shares the same social identity.