Donation-Based Crowdfunding with Refund Bonuses*

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October 2018

Abstract

We study donation-based crowdfunding for threshold public good provision. Our main focus is on an extension with refund bonuses aimed at resolving the problems of equilibrium coordination and free riding. In the case of insufficient contributions, contributors not only have their contributions refunded but they also receive refund bonuses proportional to their pledged contributions. Thus, refund bonuses encourage more contributions but ultimately enough is raised given sufficient preference for the public good and in equilibrium no bonuses need to be paid. We test the predicted effects of refund bonuses in an experiment using a laboratory-based crowdfunding platform that features most main aspects of real-life platforms. Our main empirical result is that refund bonuses substantially increase the rate of funding success when contributors can support multiple projects. Furthermore, our findings also demonstrate that refund bonuses lead to significant economic gains even after accounting for their costs.

Keywords: Public goods, donations, crowdfunding, provision point mechanism, refund bonuses, free riding, equilibrium coordination.

JEL Classification: C72, C92, H41.

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1 Introduction

The tragic collapse of Genoa's Morandi bridge in Italy in August, 2018 is a showcase of many problems associated with the centralized provision of public goods. Investigations report inadequate infrastructure funding, lack of accountability, allegations of mismanagement and corruption.[1] Experimentation with alternative forms of public finance management, e.g., fiscal federalism or privatization of public services, is yet to demonstrate sustained improvement in public good provision (Bardhan and Mookherjee (2006), Hodge (2000)). But with environmental challenges added to the pool of collective-action problems, there is a growing need for new solutions to public funding.

The early successes of crowdfunding and crowdsourcing in providing public goods captured the attention of policy makers (World Bank (2013), Gabison (2015)). The Wikipedia project rendered expensive, state-funded national encyclopedias obsolete. With governments in impasse over global environmental issues, the $20-million Ocean Cleanup mission, funded by voluntary contributions, is on its way to remove plastic from the oceans. In the United Kingdom, an increasing number of cancer patients seek to crowdfund their treatment, so bypassing inefficient services of national public healthcare.[2] On Internet crowdfunding platforms communities, schools, free software developers, artists, environmentalist groups, political parties raise donations for public projects and causes. Even governments resort to crowdfunding. In 2008, London's Metropolitan Police Service launched the MetPatrol Plus program which offers commercial districts and communities a possibility to crowdfund hires of police officers whose numbers were reduced in response to budgetary cuts.[3] Finally, crowdfunding's operation on a peer-to-peer basis without intermediation is considered particularly advantageous in developing countries as a way of bypassing their institutional inefficiencies (World Bank (2013)).

This paper is concerned with the problem of improving donation-based crowdfunding

[1] "Italy's crumbling infrastructure under scrutiny after bridge collapse" by Lorenzo Tondo, *The Guardian*, 17 Aug 2018; "Italy bridge collapse: furious ministers blame highways firm" by Angela Giuffrida and Lorenzo Tondo, *The Guardian*, 15 Aug 2018; "A deadly bridge collapse points to Italy's structural weaknesses" *The Economist*, 18 Aug 2018.

[2] "Private cancer therapy crowdfunding rise" *http://www.bbc.co.uk/news/health-38858898*, 4 Feb 2017.

[3] "How to hire your own London policeman" *The Economist*, 15 Dec 2016.

for the purpose of threshold public good provision. In its current practice, donation-based crowdfunding remains fraught with the same problems that most decentralized methods of public good provision face – in particular, multiple equilibria and free riding. In a typical "all-or-nothing" crowdfunding campaign – in the language of economics, the provision point mechanism – contributions are pledged over a pre-specified period of time. If an announced target is met then the funds pledged are released to the project developer; otherwise, the contributors are fully refunded. Because of the equilibrium coordination problem and subsequent free riding, an immediate prediction about "all-or-nothing" crowdfunding is a high occurrence of low-contribution outcomes.[4] Furthermore, according to Kuppuswamy and Bayus (2018), an important factor of a campaign's success is the fundraiser's social circle, where many contributions typically originate, adding to the limitations of crowdfunding for public projects.

This paper investigates, empirically and theoretically, contributing behavior toward public goods under conditions very close to those of "all-or-nothing" crowdfunding. For this purpose, we created a laboratory-based crowdfunding platform that features many important and realistic elements of crowdfunding in practice. This platform allows asynchronous contribution pledges over continuous time, upward pledge revisions, and constant updating of individual and aggregate pledge amounts until a fixed deadline. It can simultaneously accommodate multiple fundraising campaigns and also allows for different crowdfunding campaign designs.

The main emphasis of our work is on the modification of the "all-or-nothing" crowdfunding mechanism that is proposed by Zubrickas (2014) and further explored by Cason and Zubrickas (2017). The modification is to introduce refund bonuses payable to contributors in the event of an unsuccessful fundraising campaign.[5] As an example, consider a $10,000 crowdfunding campaign to renovate a park. The crowdfunding platform, e.g.,

[4] This prediction finds strong empirical support. As of October 2018, one of the most popular platforms, Kickstarter, reports the success rate of 36.43% for the total of its 420,650 launched projects. Out of 264,908 unsuccessfully funded projects, 55,322 (21%) received 0% funding and 166,401 (63%) received between 1% to 20% funding. According to The Verge (2013), the success rate of Indiegogo, another popular crowdfunding platform, is only 10%.

[5] The idea similar to refund bonuses first appeared in Tabarrok (1998) in the form of dominant assurance contracts applied to collective action problems with binary choice.

Kickstarter, promises that if the funding threshold of $10,000 is not met the platform not only refunds the contributors their contributions but also gives them refund bonuses proportional to their contributions pledged, e.g., 10% of their contributions. As shown in Zubrickas (2014), refund bonuses provide incentives for more contributions and ultimately these incentives, together with contributors' preference for the public good, ensure that in equilibrium enough is raised without any bonuses paid. This modification not only eliminates inefficient equilibria but also reduces the set of efficient equilibria because refund bonuses create more opportunities for profitable deviations, which results in a fewer combinations of contributions that can be sustained as equilibria. From the contributors' perspective, refund bonuses give contributors assurance that they will receive a positive return from contributing – either from the public good or from refund bonuses – whereas free riders may end up with nothing.

The findings of Cason and Zubrickas (2017), which is the first experimental study on refund bonuses, considered only a static (simultaneous contributions) environment and provide further motivation for the present study.[6] First, Cason and Zubrickas (2017) demonstrate that experimental subjects respond to incentives created by refund bonuses in predicted ways. For example, and counter to simple intuition, project funding rates decline if the refund bonus is set very high. This is consistent with equilibrium predictions. Most importantly, they also demonstrate that (sufficiently small) refund bonuses can achieve a higher success rate compared to the standard "all-or-nothing" mechanism without bonuses. These findings illustrate the potential of refund bonuses for practical applications, to which the present paper provides further support.

Refund bonus mechanisms do not yet exist on crowdfunding platforms, so it is important to study whether refund bonuses can increase funding and economic returns in a more realistic dynamic environment. We find that in the setting with multiple fund-

[6] Besides considering only simultaneous contributions, the experiment in Cason and Zubrickas (2017) employed an environment that is considerably different from the one studied here and from crowdfunding in practice. In Cason and Zubrickas (2017) contributors could only pledge support for one project at a time, they could not add additional contributions to this project, and they faced no aggregate uncertainty since the total value of the project was known and unchanging across periods. Treatments in that study included very large refund bonuses to explore some counter-intuitive predictions of the mechanism's equilibria.

ing campaigns, the introduction of refund bonuses increases the success probability from 30% to 60% and yields significant economic gains even after accounting for refund bonus costs. While in the paper we do not explicitly model sources of refund bonuses, we consider a specific example where the crowdfunding platform pays for refund bonuses out of fee surcharges levied from successful campaigners.[7] With calculations based only on the intensive margin of contributions, we show that a 6% surcharge can be sufficient for the refund bonus scheme to be self-sustainable.

Compared to the levels of coordination reported by Cason and Zubrickas (2017), adding a (continuous) time dimension for contributions results in higher levels of coordination under the standard "all-or-nothing" mechanism but only for single-project conditions. The equilibrium coordination problem resurfaces in full when subjects can choose among several projects, however, as we observe more failed campaigns with relatively low total contributions. Nevertheless, the impressive performance of the mechanism extended with refund bonuses remains robust to the presence of alternative projects. Another finding is that the introduction of refund bonuses can change the pattern of contributions over time as aggregate contributions accumulate more slowly under conditions with refund bonuses.

Our empirical findings are consistent with theoretically predicted contributing behavior. We develop a model of "all-or-nothing" crowdfunding that allows for refund bonuses. The model belongs to the class of models of dynamic provision of discrete public goods. Following the related literature (Kessing (2007); Choi et al. (2008); Battaglini et al. (2014, 2016); Cvitanic and Georgiadis (2016)), our modeling approach uses Markovian (payoff relevant) strategies to characterize equilibrium contributions.[8] The distinctive feature of our model is that, in line with the practice of crowdfunding, contributions are refunded in the case of the campaign's failure; that is, contributions are only made in the event of success. This feature implies linear costs and no discounting and, as a result, has important implications for strategic interactions between individual continuation contri-

[7] Another example of a refund bonus source is a third-party donor, perhaps introduced as seed funding.

[8] In addition, Choi et al. (2008) and Battaglini et al. (2016) demonstrate a close match between equilibrium Markovian strategies and empirically observed contributions.

butions and aggregate accumulated contribution. In particular, Kessing (2007) shows that with discrete public goods aggregate and individual contributions are strategic complements as a larger aggregate contribution implies a higher probability of success and, in turn, a higher marginal value of further contributions (also see Cvitanic and Georgiadis (2016)). However, we show that strategic complementarity is attenuated by the condition that contributions are refunded in the case of failure, i.e., they are not sunk. While additional contributions increase the probability of success, they also decrease the probability of failure and, thus, of obtaining contribution refunds. Hence, refunds affect the value function of the project, which now bears some resemblance to a value function for continuous public good projects. The implication is that, drawing on Fershtman and Nitzan (1991), individual and aggregate contributions can become strategic substitutes. The introduction of refund bonuses shifts the balance more toward strategic substitutability, which can explain our empirical finding about the slower accumulation of contributions under refund bonuses.

The remainder of the paper is organized as follows. Section 2 presents the model, dynamic contribution problem, and its solution. Based on our theoretical model, we formulate testable hypotheses in Section 3. In Section 4 we present the design of the experiment and discuss its results in Section 5. In Section 6 we discuss additional related literature. Section 7 concludes the study.

2 Model

Consider a set $\mathcal{N}$ of agents, indexed by $i \in \mathcal{N}$, that can benefit from a public good project. Each agent i has a privately known valuation for the public good which is given by v_i. It is common knowledge that individual valuations are independently distributed over $[\underline{v}, \overline{v}]$ according to a distribution $F(.)$ with the density function $f(.)$. The project costs C to implement. The fundraising campaign runs over a fixed period of time $[0, T]$. During any moment of time agents can pledge contributions toward the project. If at the end of the campaign the sum of contributions falls short of the target C, then the contributions are refunded together with refund bonuses as a share $r \geq 0$ of the contributions pledged; otherwise, the contributions are collected and the project is implemented. Contributions exceeding C are not refunded and do not affect project quality (i.e., they are wasted).

2.1 Static Contribution Problem

For the subsequent analysis of the dynamic contribution problem, it is useful first to summarize the main results of the static model presented in Zubrickas (2014). Without refund bonuses, $r = 0$, besides equilibria with a positive probability of provision there are also equilibria that have the zero probability of provision. For example, the zero-contribution outcome is equilibrium and so is any combination of contributions that sum up to less than $C - v^{max}$, where v^{max} is the highest valuation in the group. The introduction of refund bonuses eliminates the equilibria with the zero probability of provision as otherwise agents could gain in utility by marginally increasing their contributions and, thus, their refund bonuses.

Refund bonuses also have other effects. Refund bonuses not only eliminate inefficient equilibria but they also reduce the set of efficient equilibria. Refund bonuses create possibility for profitable deviations and, therefore, in equilibrium each contributor needs to obtain a sufficiently large net utility from the public good. This implies that fewer combinations of contributions can be sustained as equilibria. For instance, in the case of no aggregate uncertainty there exists a bonus rule that uniquely implements the public good. In the case of aggregate uncertainty, which is the case studied here, bonuses that are too large may reduce the probability of provision. Intuitively, at low realizations of valuations such that their aggregate V has $V < C(1 + r)$, agents prefer refund bonuses, which are rC in total at the limit, over the net utility of the project, $V - C$.[9]

[9] In our experiment, we adopt the framework where the public good project is (almost) always efficient to implement even after accounting for refund bonuses, i.e., $V > (1 + r)C$.

2.2 Dynamic Contribution Problem

In the model, we consider Markovian (payoff-relevant) strategies and abstract from any signaling considerations that preceding play may entail. Let $g_i(t)$ denote agent i's total contribution made from the start of the campaign up to time t and, respectively, let $G(t)$ denote the aggregate contribution of all agents, $G(t) = \sum_i g_i(t)$, and $G_{-i}(t)$ the aggregate contribution of the agents other than i, i.e., $G_{-i}(t) = \sum_{j \neq i} g_j(t)$. At every moment of time t each agent i observes the aggregate contribution $G(t)$ and can make an additional contribution $a_i(G(t), g_i(t), v_i, t)$ as a function of $G(t)$, $g_i(t)$, own valuation v_i, and time t that maximizes his expected payoff after accounting for strategies of other agents $\{a_j(G(t), g_j(t), v_j, t)\}_{j \neq i}$. We note that individual total contribution $g_i(t)$ is a state variable because it is not a sunk cost as it is repaid in the event of the campaign's failure and it also determines the amount of refund bonus. We refer to function $a_i(.)$ as a Markovian strategy.[10]

We express agent i's problem as choosing strategy $a_i(G(t), g_i(t), v_i, t)$ such that at every t it maximizes the value function

$$J_i(a_i(.), \{a_j(.)\}_{j \neq i}) = \int_t^T -a_i(G(t'), g_i(t'), v_i, t')dt' + \tag{1}$$

$$+ (1 - \Pr(G(T) < C \mid G(t)))(v_i - g_i(t)) +$$

$$+ \Pr(G(T) < C \mid G(t)) \; (1 + r) g_i(t)$$

subject to

$$dg_i(t') = a_i(G(t'), g_i(t'), v_i, t')dt', \tag{2}$$

$$dG(t') = \sum_i a_i(G(t'), g_i(t'), v_i, t'), \tag{3}$$

and initial conditions $G(t) = g$ and $g_i(t) = g_i$, $i \in \mathcal{N}$. (4)

Above, $\Pr(G(T) < C \mid G(t))$ is the probability that the aggregate contribution $G(T)$ falls short of the target conditional on $G(t)$ raised at time t. The integrand of the first term of

[10] Our exposition of the dynamic problem closely follows Cvitanic and Georgiadis (2016). Besides refund bonuses, another difference is that in our model contributions are actually made only in the event of success which implies linear costs and no discounting. These observations have important consequences for the solution of the model.

the value function $J(.)$ stands for the instantaneous utility of an additional contribution, and the rest of the function gives the expected scrap value. The side constraints describe the evolution of the state variables.

We predict that the outcome of the fundraising campaign is Markov Nash equilibrium (MNE) defined as

Definition 1. *A profile of Markovian strategies $\{a_i^*(G(t), g_i(t), v_i, t)\}_{i\in\mathcal{N}}$ is Markov Nash equilibrium if at every moment $t \in [0, T]$ the strategy $a_i^*(G(t), g_i(t), v_i, t)$ is a solution to (1)-(4) given $\{a_j^*(G(t), g_j(t), v_j, t)\}_{j\neq i}$ for all admissible initial conditions $G(t)$ and $g_i(t)$, $i \in \mathcal{N}$.*

Similar to the static case, we can immediately observe that low-contribution outcomes with the zero probability of provision can be equilibrium for $r = 0$, e.g., $a_i^* = 0$ for all i and t. With $r > 0$, however, such outcomes are not equilibria because any agent could increase his contribution and, subsequently, refund bonus. For the remainder of this section, we restrict attention to equilibria with a positive probability of provision.

2.3 Equilibrium Characterization

First, we observe that only total contributions matter for payoffs and not their dynamics over time, as the costs of contributions are linear and are payable only at the end of the campaign conditional on its success. Specifically, integrating the side constraint (2) yields

$$g_i(T) - g_i(t) = \int_t^T a_i(g(t'), g_i(t'), v_i, t')dt' \equiv g_i^T(G(t), g_i(t), v_i, t), \tag{5}$$

and the side constraint (3) can be accordingly expressed as

$$G(T) = G(t) + \sum_i g_i^T(G(t), g_i(t), v_i, t). \tag{6}$$

Using (5) and (6), we can transform agent i's problem, where at every moment of time t each agent i chooses continuation contribution $g_i^T(G(t), g_i(t), v_i, t)$ to maximize his expected payoff given by

$$\widetilde{J}_i(g_i^T(.), \{g_j^T(.)\}_{j\neq i}) = (1 - \Pr(G(T) < C \mid G(t)))\ (v_i - g_i(t) - g_i^T(.)) + \tag{7}$$
$$\Pr(G(T) < C \mid G(t))\ r(g_i(t) + g_i^T(.))$$
$$\text{subject to (6) and initial conditions } G(t) \text{ and } g_i(t),\ i \in \mathcal{N}. \tag{8}$$

Second, at any moment of the campaign we can determine the equilibrium conditional probabilities of success and failure using the dynamic consistency of equilibrium play and that the initial condition $G(t)$ needs to lie on the admissible path. Letting $\mathcal{H}(.)$ be the distribution of equilibrium aggregate contribution $G(T)$, we have by Bayes rule that the probability of failure conditional on $G(t)$ raised until time t is determined by

$$\Pr(G(T) < C \mid G(t)) = \frac{\mathcal{H}(C) - \mathcal{H}(G(t))}{1 - \mathcal{H}(G(t))}. \tag{9}$$

Then, the problem presented in (7)–(8) can be viewed as a static Bayesian game where agent i's strategy is a continuation contribution $g_i^T(G(t), g_i(t), v_i, t)$ which is a function of previous aggregate and own contributions and of own valuation, respectively. At any moment t the solution to the initial program (1)–(4) determines the continuation contributions that are a solution to the static fundraising game for the remainder of the funds required, $C - G(t)$, with the players' beliefs about the probability of success being consistent with the equilibrium play up to time t. We summarize these observations in the following proposition.

Proposition 1. *Suppose that* $\{a_i^*(G(t), g_i(t), v_i, t)\}_{i\in\mathcal{N}}$ *is Markov Nash equilibrium. Then, the resultant continuation contributions* $\{g_i^{T*}(G(t), g_i(t), v_i, t)\}_{i\in\mathcal{N}}$*, defined by (5), form a Bayesian Nash equilibrium of the fundraising game, where for every* t *the players pledge contributions for the remainder* $C - G(t)$ *and their beliefs about the failure probability are consistent with past contributions as determined by the Bayes' rule in (9).*

2.4 Equilibrium Properties

According to Proposition 1, a profile of Markov strategies is Markov Nash equilibrium only if it forms a Bayesian Nash equilibrium of the static contribution game. One outcome of this observation is that our findings about the static contribution model presented earlier also apply to the dynamic contribution problem. Next, we consider Bayesian Nash equilibria with a positive probability of provision in order to characterize comparative statics properties of equilibrium continuation contributions at any time t, which will form a basis for empirical analysis. The properties established below apply to all Bayesian Nash equilibria and, therefore, can be used to characterize equilibrium Markovian strategies.

For subsequent analysis it is useful to replace the state variable $G(t)$ with the aggregate contribution of agents other than i, $G_{-i}(t)$, since we have that $G_{-i}(t) = G(t) - g_i(t)$. Let $\mathcal{H}_{-i}(.)$ be the distribution of the equilibrium total contribution $G^*_{-i}(T)$ of the other agents. We can rewrite the problem in (7)–(8) so that the equilibrium continuation contribution $g_i^{T*}(G_{-i}(t), g_i(t), v_i, t)$ or just g_i^{T*} for brevity maximizes agent i's expected payoff from time t onwards determined by

$$U_i(g_i^T, \{g_j^T\}_{j\neq i}; G_{-i}(t), g_i(t), v_i) = \frac{1 - \mathcal{H}_{-i}(C - g_i^T - g_i(t))}{1 - \mathcal{H}_{-i}(G_{-i}(t))} \; (v_i - g_i^T - g_i(t)) + \frac{\mathcal{H}_{-i}(C - g_i^T - g_i(t)) - \mathcal{H}_{-i}(G_{-i}(t))}{1 - \mathcal{H}_{-i}(G_{-i}(t))} \; r(g_i^T + g_i(t)). \tag{10}$$

Assuming differentiability, we have that the non-zero equilibrium contributions are determined by the first-order condition which, premultiplied by $1 - \mathcal{H}_{-i}(G_{-i}(t))$, reads as

$$-(1 - \mathcal{H}_{-i}(C - g_i^{T*} - g_i(t))) + h_{-i}(C - g_i^{T*} - g_i(t)) \; (v_i - g_i^{T*} - g_i(t)) - h_{-i}(C - g_i^{T*} - g_i(t)) \; r(g_i^{T*} + g_i(t)) + (\mathcal{H}_{-i}(C - g_i^{T*} - g_i(t)) - \mathcal{H}_{-i}(G_{-i}(t))) \; r = 0 \tag{11}$$

where $h_{-i}(.)$ is the density function of the distribution $\mathcal{H}_{-i}(.)$.

Implicitly differentiating the condition in (11), we can establish several properties of equilibrium contributing behavior. First, not surprisingly, the continuation contribution

g_i^{T*} increases in own valuation for the public good:

$$\frac{dg_i^{T*}}{dv_i} = -\frac{h_{-i}(C - g_i^{T*} - g_i(t))}{\partial^2 U_i / \partial (g_i^T)^2} > 0,$$

where we use that $\partial^2 U_i / \partial (g_i^T)^2 < 0$ by the second-order condition. Second, we obtain that the derivative of the continuation contribution with respect to own previous contribution is equal to

$$\frac{dg_i^{T*}}{dg_i(t)} = -\frac{\partial^2 U_i / \partial g_i^T \partial g_i(t)}{\partial^2 U_i / \partial (g_i^T)^2} = -1.$$

In words, own previous and further contributions are perfect substitutes, and the reason is that previous contributions are not sunk costs and have the same effect on payoffs as any further contribution. Lastly, the derivative of the continuation contribution with respect to others' previous contributions is

$$\frac{dg_i^{T*}}{dG_{-i}(t)} = -\frac{-rh_{-i}(G_{-i}(t))}{\partial^2 U_i / \partial (g_i^T)^2}. \tag{12}$$

For $r \geq 0$ this derivative is non-positive, which indicates substitutability between individual continuation contributions and previous contributions of others. However, the degree of substitutability is inversely related to the refund bonus rule r, which, intuitively, is due to stronger incentives to miss the target for larger refund bonuses. We also note that with $r < 0$, which implies that a part of contribution is sunk, we obtain strategic complementarity between individual contributions and aggregate contribution in line with the results of Kessing (2007) and Cvitanic and Georgiadis (2016).

In general, our finding in (12) can be related to other findings from the literature on the dynamic provision of public goods. Whether own contribution and the previous contributions of others are strategic complements or substitutes depends on the type of the public good. In particular, for continuous public goods there is strategic substitutability (Fershtman and Nitzan (1991)), whereas for discrete goods – strategic complementarity (Kessing (2007)). Intuitively, with continuous public goods and a concave utility an additional contribution reduces the marginal value of subsequent contributions, thus, yielding strategic substitutability. By contrast, with discrete public goods an additional contribution increases the probability of provision and, thus, the marginal value of subsequent contributions, yielding strategic complementarity. Even though in the present paper we deal with discrete public goods, the introduction of refunds and refund bonuses implies that the project generates payoffs not only upon completion, which makes the value function look more like in the case of a continuous public good though preserving a discontinuity at the point of provision.

Lastly, we note that our preceding analysis is about individual continuation contributions rather than the dynamics of individual contributions. Given that the costs of contribution are linear and conditional, there are multiple Markov Nash equilibria that can be consistent with the same total contributions including, e.g., equilibria with open-loop strategies or degenerate equilibria where everyone contributes at the very last moment of the campaign.

3 Empirical Implications

This section draws on the implications of the model to formulate testable hypotheses about contributing behavior. We are interested in comparing (i) the performance of mechanisms with and without refund bonuses and (ii) predicted and observed contribution patterns.

Hypothesis 1. *The introduction of refund bonuses increases the rate of provision.*

This hypothesis is based on the observation that refund bonuses eliminate equilibria with low contributions and, thus, those with a zero rate of provision. In a static (simultaneous-contribution) environment, a similar hypothesis was tested in Cason and Zubrickas (2017). Their finding is that in larger groups (10 experimental subjects) the rate of provision significantly drops in treatments without refund bonuses compared to treatments with refund bonuses. Here we test this hypothesis in a more realistic dynamic environment also allowing for multiple project alternatives.

In campaigns without refund bonuses, we can distinguish two sources of failure. The first is low-contribution equilibria, and the second is the problem of coordination among efficient equilibria. However, in campaigns with refund bonuses we have only the second source of failure. The next hypothesis follows from the observation that in campaigns without refund bonuses both sources of failure play a role.

Hypothesis 2. *The contribution target is missed by larger amounts under the mechanism without refund bonuses than with refund bonuses.*

The next two hypotheses are about patterns of individual contributions as predicted by equilibria with a positive probability of provision. When comparing equilibrium contributions between treatments with and without bonuses, we restrict the set of outcomes only to successful campaigns. This is done to remove the outcomes of inefficient equilibria that can arise under the mechanism without refund bonuses.

Hypothesis 3. *Conditional on successful campaigns, individual continuation contributions positively depend on own valuation and negatively on own previous contribution.*

Hypothesis 4. *Conditional on successful campaigns, under the mechanism with (without) refund bonuses the previous aggregate contribution of others has a negative (neutral) effect on individual continuation contributions.*

Hypothesis 4 follows from our finding, presented in (12), that previous contributions of others have a negative impact on individual continuation contributions but only under the mechanism with refund bonuses. Because of this strategic substitutability, we conjecture that contributions accumulate more slowly under the mechanism with refund bonuses:

Conjecture. *Conditional on successful campaigns, contributions accumulate more slowly under the mechanism with refund bonuses.*

4 Experimental Design

We controlled subjects' preferences over funding public goods, termed 'projects' in the instructions, using randomly drawn induced values. It was common knowledge that all

$N = 10$ subjects received an independent value for each project every period drawn from $U[20, 100]$. Actual drawn values v_i were private information. The threshold for funding each project was fixed at $C = 300$ experimental dollars. The average aggregate project value across all 10 contributors (600) far exceeds the project cost, and the realized minimum aggregate proejct value (based on the actual individual random draws) was 469. Therefore, all projects were efficient to fund. If the group's aggregate contributions during the two-minute funding window reached the $C = 300$ threshold, every group member received his or her drawn value for that project irrespective of their own contribution. Contributions in excess of the threshold were not refunded and they did not improve the quality of the project. Excess contributions were simply wasted. Therefore, net subject earnings for successfully funded projects equalled their drawn value minus their own total contribution.

Like most crowdfunding mechanisms in the field, the contribution mechanism operated in continuous time, with a hard close and full information about aggregate contributions at all times. While the two-minute timer counted down in one-second increments, any subject could submit a contribution. These contributions were instantly displayed to all nine others in the group on an onscreen table listing.[11] Subjects could make as many contributions, in whatever amounts they desired, during the two-minute window. Consistent with actual crowdfunding schemes, contributions could not be withdrawn. In addition to the table listing each individual contribution, subjects' screens displayed the total contribution sum raised at that moment, next to the target contribution threshold (300). The screen also continuously updated the subject's own total contribution for the period, summed across their individual contribution amounts.

The experiment employed a 2×3 design, and within subject treatment variation. The first treatment variation concerns the availability of alternative projects for potential contributions, in order to investigate whether coordination difficulties caused by multiple

[11]This individualized contribution listing indicates the distribution of contributions at each point in time. This is a simple approximation to the information provided by online crowdfunding sites, where many projects display how many individual contributions fall into various ranges. Furthermore, displaying individual contributions has no theoretical implications because of the aggregative structure of the public good game, i.e., the distribution of others' contributions does not matter as long as their aggregate is the same.

Table 1: Experimental Design

Values v	Periods 1-15	Periods 16-30	Num. Subjects	Num. Groups
$U[20, 100]$	$r_1 = 0$, $r_2 = 0.1$	Only $r = 0.2$	20	2
$U[20, 100]$	$r_1 = 0$, $r_2 = 0.2$	Only $r = 0.1$	20	2
$U[20, 100]$	$r_1 = 0.1$, $r_2 = 0.2$	Only $r = 0$	20	2
$U[20, 100]$	Only $r = 0$	$r_1 = 0.1$, $r_2 = 0.2$	20	2
$U[20, 100]$	Only $r = 0.1$	$r_1 = 0$, $r_2 = 0.2$	20	2
$U[20, 100]$	Only $r = 0.2$	$r_1 = 0$, $r_2 = 0.1$	20	2

projects affect the performance of refund bonuses. In some periods subjects could only contribute towards one project, while in other periods subjects could contribute to two projects during the same time window. Their value draws for these two projects were independent. Both projects or one project could be funded successfully. The second treatment variation was the availability and amount of the refund bonus, $r \in \{0, 0.1, 0.2\}$, with $r = 0$ being the no bonus baseline. Under the mechanism with a positive refund bonus r, the individual's total contribution g_i determines her net earnings for the period in the event that aggregate total contributions G do not reach the threshold C. To summarize, subjects earnings for every project are determined by $\mathbb{1}_{G \geq C}(v_i - g_i) + \mathbb{1}_{G<C}\, r g_i$.

As noted above, we varied the treatment conditions within subjects. Table 1 displays the ordering of treatment conditions across different sessions. Each session began with 15 periods in one treatment followed by one treatment switch before the final 15 periods. Half of the sessions began with only one project available to fund, while the other half began with two project alternatives. All the different combinations of refund bonuses were presented to subjects in different sessions. We did not include alternative projects with identical refund bonuses, or both with no refund bonus, because previous research (Corazzini et al. (2015); Ansink et al. (2017)) has already investigated coordination and contributions to multiple projects with similar or identical characteristics. Two groups of ten subjects (fixed matching within ten-subject groups) participated in each of the six treatment ordering configurations, for a total of 120 subjects in the experiment.

All sessions were conducted at the Vernon Smith Experimental Economics Laboratory at Purdue University, using z-Tree (Fischbacher (2007)). Subjects were undergraduate students, recruited across different disciplines at the university by email using ORSEE

(Griener (2015)), and no subject participated in more than one session.

At the beginning of each experimental session an experimenter read the instructions aloud while subjects followed along on their own copy. Appendix A presents this exact instructions script. Earnings in the experiment are denominated in experimental dollars, and these are converted to U.S. dollars at a pre-announced 50-to-1 conversion rate. Subjects are paid for all project rounds and also received a $5.00 fixed participation payment. Subjects' total earnings averaged US$24.25 each, with an interquartile range of $20.00 to $27.50. Sessions usually lasted about 90 minutes, including the time taken for instructions and payment distribution.

5 Experimental Results

We report the results in four subsections. The first subsection considers the main treatment effects, specifically the funding rate and individual contributions for the different refund bonus conditions. The data indicate that treatment differences emerge most strongly when multiple projects are available for funding, and the second subsection explores this further. The third subsection reports individual contributions within the continuous time contribution window, and how they depend on the bonus rate and previous contributions within the period. The final subection presents additional results on the contribution dynamics.[12]

5.1 Main Treatment Effects

The overall project funding rate is about 40 percent in the baseline condition without refund bonuses. This success rate increases to about 50 percent with the smallest (0.10) refund bonus rate, and further to about 60 percent with the larger (0.20) bonus rate. Figure 1 illustrates that these increases in project funding due to the refund bonus occur only when alternative projects are available for contributions. Without alternative

[12] In one session the subjects in one group were clearly confused in the first period, as they contributed 820 to the project when only 300 was needed for funding. This single period was dropped prior to the data analysis.

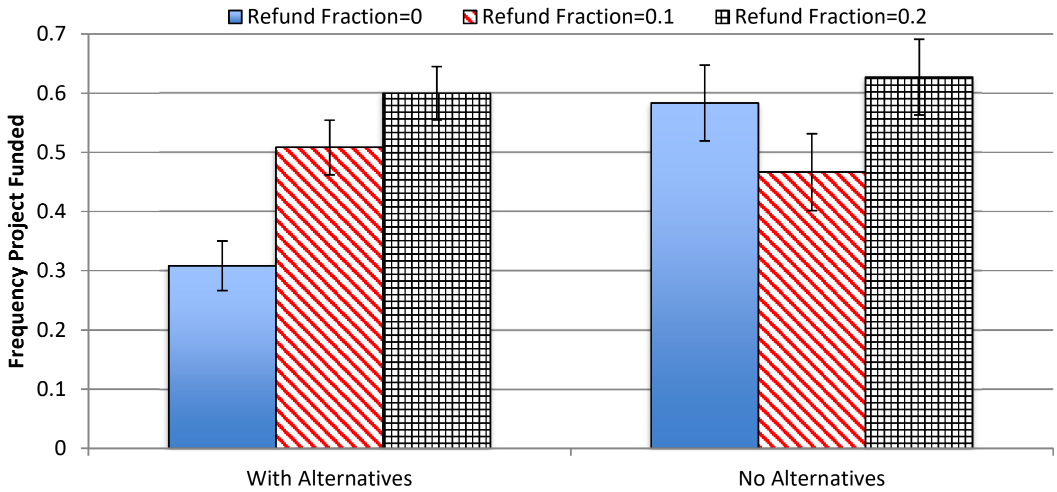

Figure 1: Overall project funding rates by treatment condition. Error bars indicate standard error of the mean.

projects to fund, the funding rate without refund bonuses is similar to those projects with bonuses. That is, the data support Hypothesis 1 only when alternative projects are available.

Result 1. Refund bonuses increase the rate of provision and individual contributions only when multiple projects are available to receive contributions. Contributions also increase in the aggregate and individual valuation of the project, but are not affected by the existence or level of the alternative project's refund bonus.

Support. Table 2 reports random effects regressions of project funding outcomes (columns 1 and 2) and individual contributions (columns 3 and 4) on exogenous treatment variables and the randomly-drawn project valuations. The regressions also control for (insignificant) experience and time trends. The omitted treatment is the zero bonus baseline. The treatment dummies for the positive refund bonuses are only statistically significant with alternative projects available (columns 2 and 4). Funding success and individual contributions also increase when the drawn project valuations are greater, indicating that this voluntary contribution mechanism is able to identify and fund the more worthy projects. Importantly, the lower rows of the table indicate that funding rates and individual contributions are not lower when the alternative project has a positive refund bonus. Only the individual subjects' value for the alternative project has a negative impact on contributions.

Table 2: Funding Success and Individual Contributions

	Logit: Funding Success		Individual Contributions	
	No Alternatives (1)	w/Altern. (2)	No Alternatives. (3)	w/Altern. (4)
Dummy (bonus=0.1)	-0.114 (0.086)	0.200** (0.061)	0.429 (0.814)	4.926** (1.465)
Dummy (bonus=0.2)	0.046 (0.052)	0.260** (0.079)	1.041 (0.624)	5.523** (1.146)
Total Value	0.002** (0.0007)	0.002** (0.0004)		
Own Value			0.295** (0.021)	0.379** (0.020)
Period	-0.010 (0.006)	-0.005 (0.008)	0.048 (0.086)	0.088 (0.104)
Dummy (Periods 16-30)	-0.093 (0.063)	-0.064 (0.059)	0.317 (0.585)	1.145 (1.019)
Alternative Project Total Value		-0.0007 (0.0003)		
Alternative Project Own Value				-0.048** (0.017)
Dummy (Alt. bonus=0.1)		0.002 (0.059)		0.662 (1.127)
Dummy (Alt. bonus=0.2)		-0.050 (0.082)		0.065 (0.902)
Constant			10.39** (1.86)	2.60 (1.97)
Observations	179	360	1790	3600

Note: Random-effects regressions, with standard errors clustered by sessions; robust standard errors are reported in parentheses. Marginal effects shown for logit models. ** indicates coefficient is significantly different from zero at the .01 level; * at .05.

The next result considers outcomes for unsuccessful projects. Inefficient, low-contribution equilibria exist only for the mechanism without refund bonuses, so Hypothesis 2 postulates that the contribution target of 300 is missed by larger amounts without refund bonuses. While we do not observe outcomes at exactly zero total contributions in any treatment, refund bonuses raise average contributions closer to the threshold.

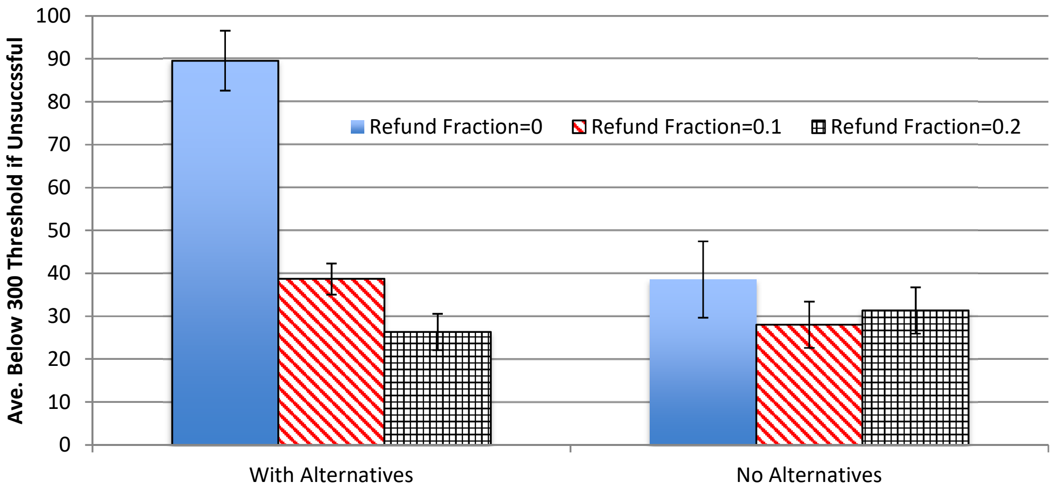

Figure 2: Average amount short of threshold for unsuccessful projects, by treatment condition. Error bars indicate standard error of the mean.

Result 2. For projects that are not funded successfully, refund bonuses raise average contributions closer to the funding threshold only when multiple projects are available to receive contributions.

Support. Figure 2 shows that when no alternative projects are available to receive contributions, on average unsuccessful projects fall short of the funding threshold by the highest amount (38) when no refund bonuses are offered, but this average is not significantly higher than the average $(28-31)$ with refund bonuses. When alternatives projects are available, however, contributions fall short of the target of 300 by 90 on average without bonuses, which is statistically and economically much greater than the levels for unsuccessful projects with refund bonuses.[13]

Generally, Results 1 and 2 suggest that refund bonuses help resolve the equilibrium coordination problem. With a single project, we observe that both mechanisms produce a similar rate of provision and average contributions and, as implied by Result 2, low-contribution equilibria do not seem to play a role under zero bonus conditions. From a different perspective, having a time window for contributions helps individuals coordinate on efficient outcomes.[14] However, with multiple projects low-contribution equilibria seem

[13]These statistical conclusions are based on tobit models that control for experience and time trends, and robust standard errors clustering on sessions.

[14]The 58 percent success rate without refund bonuses when no alternatives are available compares favorably to the 20-30 percent success rate for the 10-contributor, no refund case in Cason and Zubrickas

to have an effect under zero bonus conditions as judged by the significantly lower rate of provision and contributions. Drawing on Corazzini et al. (2015), we conjecture that the necessity to coordinate over multiple projects exacerbates the equilibrium coordination problem under zero bonus conditions. Furthermore, the findings in Results 1 and 2 are consistent with the findings in Cason and Zubrickas (2017), where we demonstrate that in a static environment refund bonuses result in a higher rate of provision in larger groups.

Our final results for the main treatment comparison concern overall funding efficiency and net returns. Due to the drawn individual values for the different projects, some have a greater social value V than others. We define funding efficiency as $[V - G(T)]/[V - C]$ when the project is funded ($G(T) \geq C$) and 0 otherwise. It is an index that ranges from 0 for unsuccessful projects to 1 for those projects whose total contributions $G(T)$ exactly reach the threshold C. Excess contributions above C, which are common due to miscoordination, lower this index below one. Refund bonuses paid for $r > 0$ on unsuccessful projects do not factor into funding efficiency, since these are simply transfers and do not affect total surplus.

We also use an alternative performance index, termed net return (NR), to penalize the outcome from the mechanism designer's perspective when refund bonuses are paid.

$$NR(G(T), r) = \begin{cases} V - G(T) & \text{if} \quad G(T) \geq C \\ -rG(T) & \text{if} \quad G(T) < C \end{cases}$$

This simply replaces the social value for successful projects with the refund bonuses that have to be paid by the mechanism designer when fundraising is unsuccessful. By definition, of course, these net returns can only be negative when refund bonuses can be paid ($r > 0$).

Result 3. Funding efficiency increases monotonically with the amount of the refund bonus rate r, but only when multiple projects are available to receive contributions. Net

(2017) with single, simultaneous contribution opportunities. Although this improvement could be due to improved coordination from the continuous contribution window, it could be due to other environment differences in the two experiments noted above in footnote 6.

returns are also significantly greater than the $r = 0$ baseline for the high refund bonus $r = 0.2$ when alternative projects are available, but are significantly lower than the $r = 0$ baseline for the low refund bonus $r = 0.1$ when no alternative projects are available.

Support. Table 3 reports average funding efficiency and net returns for each of the treatments. None of the efficiency figures shown in the first column are significantly different from each other for the case where no alternative projects are available for funding. By contrast, the monotonic increase in efficiency with alternatives available, as the refund bonus rises from 0 to 0.1 to 0.2, are all significantly different at 1 percent.[15] The net returns average 158 with the high refund bonus $r = 0.2$ when alternative projects are available to fund, which exceeds the 101 average without refund bonuses at the 5 percent level. Without alternative projects, the net returns of 192 without refund bonuses exceed the 129 average returns for the small refund bonus $r = 0.1$.[16]

Table 3: Average Funding Efficiency and Net Returns

	Funding Efficiency		Net Returns	
	No Alternatives	w/Altern.	No Alternatives.	w/Altern.
No Refund Bonus ($r = 0$)	0.567	0.300	192.3	101.0
	(0.062)	(0.041)	(21.9)	(14.1)
Refund Bonus $r = 0.1$	0.437	0.487	129.4	138.6
	(0.061)	(0.044)	(22.8)	(15.5)
Refund Bonus $r = 0.2$	0.585	0.575	172.3	158.1
	(0.060)	(0.043)	(24.3)	(16.7)
Observations	179	360	179	360

Note: Standard errors are reported in parentheses.

While refund bonuses can be overall welfare improving, an interesting question is whether a for-profit crowdfunding platform would consider introducing refund bonuses. Let us consider the case when the crowdfunding platform levies a surcharge fee on successful projects and pays for refund bonuses out of its increased revenue. In the current practice, crowdfunding platforms typically keep 5% of contributions of successful cam-

[15]These statistical conclusions are based on tobit models that control for experience and time trends, and robust standard errors clustering on sessions.

[16]Conclusions are based on a regression with experience and time controls, with robust standard errors clustered on sessions.

paigns, which in our example with alternative projects would generate an expected profit of $0.05 \times 0.300 \times 310 = 4.65$ per campaign, where 310 is the average total contribution in successful campaigns. The question is what is the smallest surcharge s_r that makes the scheme with refund bonus r generate the same expected profit of 4.65 per campaign. For the 10% bonus rule, we obtain the surcharge of $s_{0.1} = 6.2\%$ and for the 20% bonus rule it is $s_{0.2} = 10.5\%$.[17] We should also note that our calculation of surcharges is based only on the intensive margin of contributions studied in the experiment. Higher success rates could also attract more campaigns and, as a result of a higher extensive margin, would require even smaller break-even surcharges.

To summarize these main treatment effects, we generally see that mechanism performance is improved with refund bonuses, but only when contributors have more than one project that they can fund. For this case, refund bonuses increase the rate of project provision, raise aggregate and individual contributions, raise average contributions closer to the funding threshold when fundraising is unsuccessful, and increase funding efficiency and net returns to the public good. Based on the intensive margin of contributions, a refund bonus scheme can be self-sustainable with a surcharge of as low as 6%.

5.2 Multiple Projects for Funding

Crowdfunding sites offer potential contributors multiple projects to fund, which can make coordination among potential contributors difficult (Corazzini et al. (2015)). Competition between multiple charities can also affect relative and total giving, depending on whether affected projects are complements or substitutes (Filiz-Ozbay and Uler (2018)). Details of the funding mechanism can also differ across projects, and across crowdfunding platforms, which is a key reason that we included treatments in this experiment in which multiple projects featuring different refund bonuses could be funded simultaneously. As just noted, performance differences emerge in the environment with multiple projects.

Models (2) and (4) shown earlier in Table 2 indicate that conditional on having alter-

[17] The surcharge $s_{0.1}$ is found from $(0.05 + s_{0.1}) \times 0.487 \times 310 - 0.1 \times 0.513 \times 260 = 4.65$, where 260 is the average total contribution in unsuccessful campaigns with the 10% bonus rules. We find $s_{0.2}$ in an analogous way.

native projects to fund, the level of the alternative projects' refund bonus did not affect funding likelihood or individual contributions. Here we turn to examine more closely whether the presence of alternative projects and their refund bonus levels affect contributions and funding. The top panel of Table 4 displays marginal effects from logit models of the likelihood of funding success, pooling across standalone projects and projects soliciting contributions while other projects are available.

The dummy variable shown in the top row indicates that when pooling across all treatments (model 1), having multiple projects to fund modestly reduces the chances of reaching the funding threshold, with marginal statistical significance. The other two columns consider different subsets of treatments. Model (2) indicates that $r = 0$ projects without any refund are significantly less likely to be funded when an alternative $r = 0.1$ project is available for contributions, compared to standalone $r = 0$ projects without alternatives. A similar result (not shown) obtains when a no-bonus project is paired with an alternative paying a $r = 0.2$ bonus. In terms of raw numbers, for the 57 cases in which only one project is funded and an $r = 0$ project is one of the alternatives, the $r > 0$ project is funded in 44 cases (77 percent) and the $r = 0$ project is funded only 13 times.

By comparison, model (3) indicates that projects with the low $r = 0.1$ bonus are not negatively affected by being paired with projects offering a higher $r = 0.2$ bonus. Similar regression results, not shown in the table, indicate that the $r = 0.1$ treatment is not negatively affected by pairing with the no-bonus treatment, and that the $r = 0.2$ project funding likelihood is also not affected by the availability of alternative projects.

The lower panel of Table 4 displays analogous results for total and individual contributions. Models (4) and (5) replicate the earlier treatment effects documenting greater contributions with positive refund bonuses, and also show that contributions fall when alternative projects are available. Models (6) and (7) illustrate that this negative impact of multiple projects is limited to the no-bonus case. Other comparisons for $r > 0$ projects, as in column (7), never indicate significant negative impacts of project alternatives. To summarize:

Result 4. Projects without refund bonuses ($r = 0$) receive lower contributions and are less likely to be funded successfully when they solicit contributions while alternative projects are simultaneously available for funding. Projects with refund bonuses ($r > 0$) are unaffected by the availability of alternative projects.

This result provides suggestive evidence that refund bonuses help coordinate contributions when multiple projects are available to fund. From a different perspective, multiple projects can aggravate the problem of equilibrium coordination under no bonus conditions. This observation is consistent with findings from the literature on two-arm bandit problems (see Bergemann and Välimäki (2008) for a review of the economics strand of this literature). Put crudely, project experimentation (contributions in our case) should be directed to projects with the highest expected reward. In our study, for projects without bonuses we have efficient and inefficient equilibria which implies lower expected returns compared to projects with bonuses provided that subjects attach a positive probability to inefficient equilibria. Thus, when confronted with alternatives subjects start first experimenting with projects that offer refund bonuses, i.e., higher expected rewards, which can explain our finding of lower contributions for projects without bonuses.[18] At the same time, since expected equilibrium rewards are barely affected by the size of refund bonuses, there should be no difference in the levels of experimentation between projects that offer bonuses. This is precisely what we observe in the experiment.

5.3 Individual Contributions, Conditional on Funding Success

The next set of empirical results concern the pattern of individual contributions as predicted by equilibria with a positive probability of provision. Accordingly, we restrict attention to the projects that were successfully funded. Hypothesis 3 postulates that individual continuation contributions g_i^T in the later phase of the period depend positively

[18] Examining the very first contribution made by individuals each period, the pattern fits this interpretation but is not statistically significant. Of 1145 initial contributions with multiple projects available and only one with a refund bonus, 624 (55 percent) are contributions towards the project with a refund bonus. A stronger predictor of which of the multiple projects receives an individual's initial contribution is the subject's own value for the project. The project value is highly significant (one-percent level) in a random effects logit regression of the project choice for the initial contribution.

Table 4: Impact of Multiple Projects for Funding

	Panel A: Logit - Funding Success (Marginal Effects)			
		Any Alternatives (1)	$r = 0$ vs. $r = 0, 0.1$ (2)	$r = 0.1$ vs. $r = 0.1, 0.2$ (3)
Dummy (Multiple Projects)		$-0.063^{\dagger}$ (0.034)	-0.218** (0.077)	0.024 (0.090)
Total Value		0.002** (0.0003)	0.003** (0.0006)	0.002 (0.0020)
Dummy (bonus=0.1)		$0.094^{\dagger}$ (0.049)		
Dummy (bonus=0.2)		0.207** (0.039)		
Observations		539	120	120

	Panel B: Total or Individual Contributions			
		Individual Contributions		
	Total Contributions (4)	Any Alternatives (5)	$r = 0$ vs. $r = 0, 0.1$ (6)	$r = 0.1$ vs. $r = 0.1, 0.2$ (7)
Dummy (Multiple Projects)	-18.02** (4.539)	-1.580** (0.449)	-4.195** (1.429)	-0.313 (0.604)
Total Value	0.159** (0.026)			
Own Value		0.356** (0.014)	0.346** (0.040)	0.330** (0.019)
Dummy (bonus=0.1)	32.06** (6.40)	3.206** (0.632)		
Dummy (bonus=0.2)	40.11** (6.53)	4.004** (0.634)		
Constant	168.60** (17.21)	4.20** (1.23)	$6.16^{\dagger}$ (3.66)	8.80** (1.56)
Observations	539	5390	1200	1200
R-squared	0.231	0.188	0.196	0.166

Notes: Random-effects regressions, with standard errors clustered by sessions; robust standard errors are reported in parentheses. Time trend (period) and treatment sequence controls included in all models. ** indicates coefficient is significantly different from zero at the .01 level; * at .05; † at 0.10.

on the contributor's own valuation for the project, and negatively on their own previous contribution made up to that point in the period. This is because own previous and further contributions are perfect substitutes. The data support this hypothesis, as summarized in the next result. Hypothesis 4 is that individual continuation contributions depend negatively on the aggregate previous contributions of others, but only for the case of positive refund bonuses. For the zero-bonus case, previous contributions of others should have a neutral impact. The data support only the zero refund bonus part of this hypothesis.

Result 5. Individual continuation contributions in the later part of the contribution period depend positively on a contributor's value for the project, and negatively on own previous contributions. This contribution pattern holds for zero and positive refund bonus conditions, with and without alternative projects available for funding. A negative but statistically insignificant relationship exists between individual continuation contributions and previous contributions of others in the period.

Support. We wish to estimate how individual i's continuation contributions in period t, g_{it}^T, depend on own previous contributions up to that point in the period (g_{it}), the aggregate contributions of others up to that point (G_{-it}) and the individual's own value draw for that period (v_{it}). When assessing these relationships it is important to account also for the amount remaining to reach the target at that point, $R_t = C - g_{it} - G_{-it}$, where $C = 300$ is the threshold for funding. We therefore would like to estimate the following linear regression, which also includes a time trend and individual fixed effects to absorb systematic differences between subjects:

$$g_{it}^T = \beta_0(C - g_{it} - G_{-it}) + \beta_1 g_{it} + \beta_2 G_{-it} + \beta_3 v_{it} + \beta_4 t + \alpha_i + \epsilon_{it}$$

The key parameters of interest for evaluating Hypotheses 3 and 4 are β_1, β_2 and β_3. This equation cannot be estimated directly due to perfect colinearity, however, since the funding threshold $C = 300$ is a constant. So instead we estimate a transformed version,

$$g_{it}^{T} = \beta_0 C + (\beta_1 - \beta_0) g_{it} + (\beta_2 - \beta_0) G_{-it} + \beta_3 v_{it} + \beta_4 t + \alpha_i + \epsilon_{it}$$

The estimates from this transformed equation can be converted back into the original β_1 and β_2 terms using β_0, with corresponding adjustments to the standard errors.

Table 5 reports the results of this estimation exercise, with different treatment conditions reported in each column. The dependent variable is the individual subject's total contribution during the final 60 seconds of each 2-minute period. The subject's own and aggregate other contributions in the initial 60 seconds in the period are used to estimate β_1 and β_2. Similar results obtain when splitting the early and late parts of the period at the 30- or 90-second mark. The coefficient estimate on subjects' own project value (β_3) is always positive, as predicted. The top row indicates a strong and robust negative relationship between own previous contributions and later contributions (β_1), consistent with Hypothesis 3.

Table 5: Continuation Contributions - Second Half of Each Period (61-120s)

	No Alternative Projects			With Alternative Projects		
	$r = 0$	$r = 0.1$	$r = 0.2$	$r = 0$	$r = 0.1$	$r = 0.2$
β_1: Own Previous Contributions (1-60s)	-0.132**	-0.109*	-0.260**	-0.212**	-0.195**	-0.231**
	(0.037)	(0.061)	(0.096)	(0.078)	(0.067)	(0.057)
β_2: Others' Previous Contributions (1-60s)	-0.006	-0.041	-0.024	-0.009	-0.037	-0.028
	(0.049)	(0.076)	(0.122)	(0.108)	(0.093)	(0.079)
β_3: Own Value	0.123*	0.186*	0.203**	0.170*	0.225**	0.212**
	(0.047)	(0.060)	(0.038)	(0.073)	(0.035)	(0.035)
β_4: Period (t)	-0.013	0.173	0.051	-0.037	0.006	0.188
	(0.101)	(0.248)	(0.227)	(0.038)	(0.060)	(0.087)
β_0: Constant (on $C = 300$)	0.072**	0.074**	0.072**	0.064**	0.072**	0.062**
	(0.013)	(0.015)	(0.018)	(0.013)	(0.004)	(0.005)
Observations	350	280	370	370	610	720
R-squared	0.188	0.143	0.161	0.166	0.186	0.217
Individuals	40	40	40	80	80	80

Note: Only includes successfully funded projects. Individual fixed-effects regression, with standard errors clustered by sessions (reported in parentheses). ** indicates coefficient is significantly different from zero at the .01 level; * at .05.

The aggregate contributions of others in the early part of the period also have a negative coefficient estimates (β_2), but they are imprecisely estimated and are not significantly different from zero. Hypothesis 4 predicts no relationship for the treatments without a refund bonus r, and indeed the (β_2) coefficient estimates are closest to zero for the $r = 0$ treatments. But the support for Hypothesis 4 is mixed due to the failure to find a statistically significant relationship between the previous aggregate contributions of others and individual continuation contributions for the $r > 0$ treatments. At the same time, we also note that since the degree of strategic substitutability directly depends on the size of the bonus r (see (12)) it might have been particularly difficult to detect it given the small values of r chosen and our sample size.

5.4 Contribution Dynamics

Refund bonuses provide potential contributors with a positive return even when the provision point is not reached. Therefore, refund bonuses create an incentive to miss the contribution target, which is also behind the strategic substitutability between others' earlier contributions and own continuation contribution. This motivates our Conjecture that contributions accumulate more slowly with refund bonuses. As noted earlier, to make comparisons of equilibrium contributions across treatments, we restrict attention to successful fundraising campaigns.

Result 6. Within the continuous time interval for project contributions, conditional on successful fundraising, aggregate contributions accumulate more slowly when refund bonuses are available. This contribution pattern holds with and without alternative projects available for funding.

Support. Figures 3 and 4 illustrate how the cumulative average contributions rise across the 120-second fundraising window. The figures differentiate the successful (solid line) and unsuccessful (dotted line) campaigns. By design, the successful campaigns reach the threshold of 300, and the figures highlight how this occurs typically through a spike of contributions in the final seconds. Therefore, this continuous time contribution mechanism still faces a coordination challenge, since these final contributions are effectively

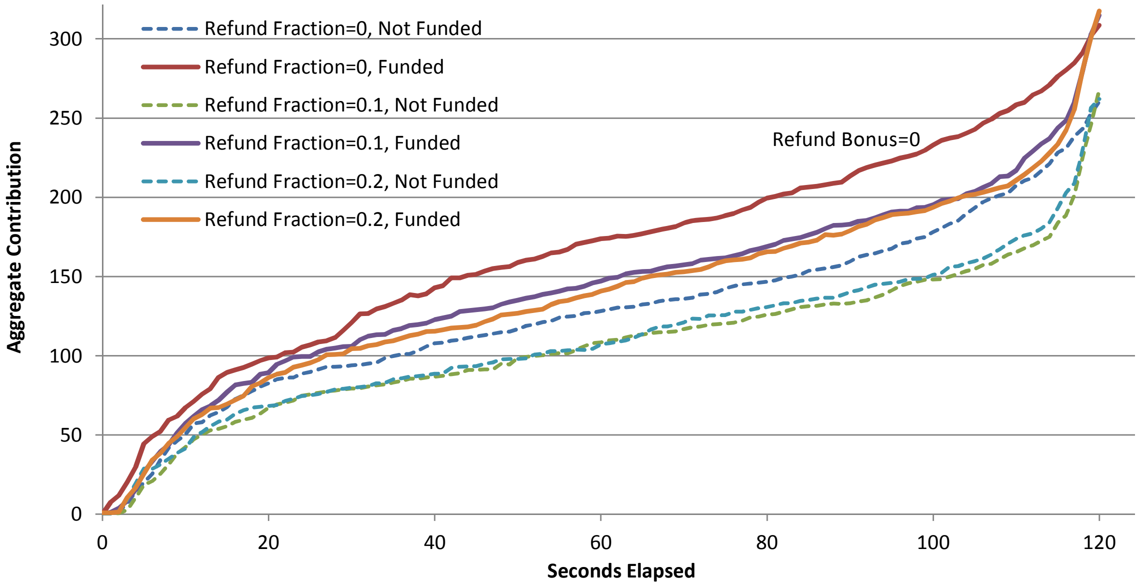

Figure 3: Cumulative Average Contributions (All Projects, No Alternative Project Available, by Funding Success)

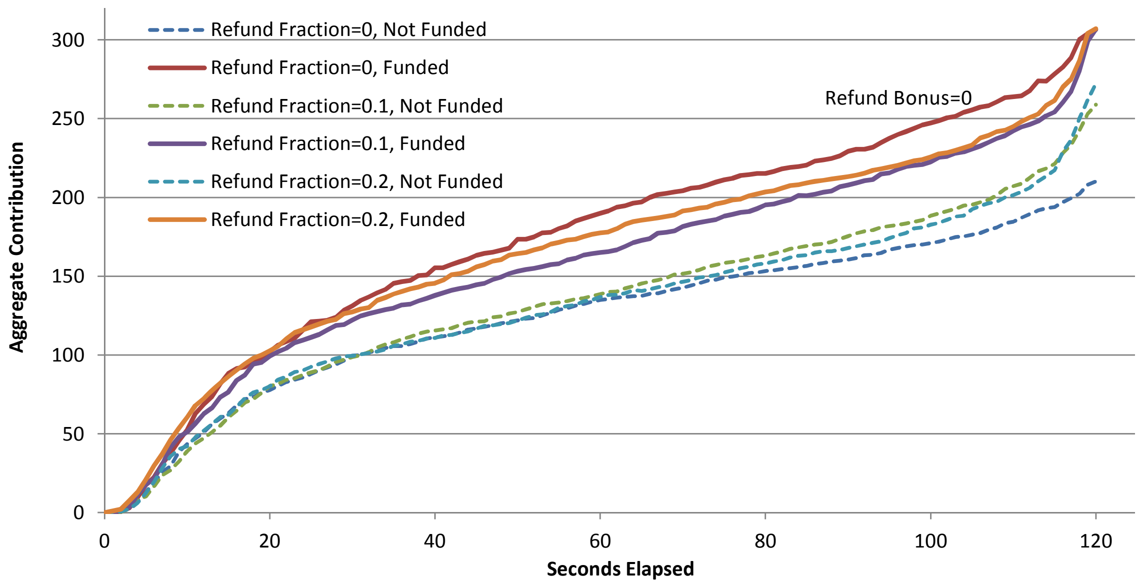

Figure 4: Cumulative Average Contributions (All Projects, With Alternative Project Available, by Funding Success)

made simultaneously. Prior to these very late contributions, the (red) top solid line for successful campaigns without a refund bonus lies above the cumulative contributions for the treatments with positive refund bonuses. This is particularly evident for Figure 3 in which no alternative projects are available to fund. With alternatives available (Figure 4), the gap is smaller and about 40 seconds are required before it emerges above the other treatments.

Table 6 reports a series of regressions to provide statistical support for Result 6. The dependent variable in these regressions is the cumulative, aggregate contributions made by all 10 group members through the first 60 seconds (Panel A) or through the first 90 seconds (Panel B) of the 120-second period. The omitted treatment condition is the case of no refund bonuses. The negative, and often statistically significant, coefficient estimates for the refund bonus treatment dummy variables indicate the lower cumulative contributions with refund bonus at these interim time points. Contributions are on average 10 to 15 percent lower with refund bonuses at these time points.[19] Note that this comparison is being made for those fundraising campaigns that were ultimately successful. Also notable in Table 6 is the strong and robust result that contributions are lower at these interim time points in later periods of the experiment, since the coefficient on the period number is significantly negative. Early contributions decrease as contributors gain more experience, even for these successful campaigns, and the flurry of final-second contributions becomes even more pronounced in the later periods of the experiment.

6 Related literature

The present paper is related to the strands of literature on non-coercive methods of public fundraising and on dynamic contribution games. The idea of using pecuniary incentives to induce contributions appears in a number of studies. For example, in Falkinger (1996) contributors are rewarded for above-average contributions; in Morgan (2000) contributors are motivated by the means of lottery prizes. The advantages of the all-pay auction design

[19] A similar set of regressions at the 30-second point also have negative coefficient estimates on the refund bonus dummies, but they are not statistically significant.

Table 6: Early Contributions for Successful Campaigns

	Panel A: Total Contributions through first 60 Seconds			
	No Alternative Projects		With Alternative Projects	
	(1)	(2)	(3)	(4)
Dummy (bonus=0.1)	-25.59		$-23.27^{\dagger}$	
	(22.83)		(12.42)	
Dummy (bonus=0.2)	$-32.63^{\dagger}$		-11.15	
	(17.07)		(12.93)	
Dummy (Any bonus> 0)		$-29.32^{\dagger}$		-17.04
		(17.33)		(11.09)
Period	-4.61**	-4.61**	-5.67**	-5.67**
	(1.42)	(1.41)	(0.99)	(1.01)
Constant	206.7**	206.7**	232.6**	232.9**
	(19.34)	(19.34)	(9.80)	(9.71)
Observations	100	100	170	170
R-squared	0.242	0.241	0.261	0.249
	Panel B: Total Contributions through first 90 Seconds			
	No Alternative Projects		With Alternative Projects	
	(5)	(6)	(7)	(8)
Dummy (bonus=0.1)	-30.82		-21.74*	
	(20.63)		(9.92)	
Dummy (bonus=0.2)	$-32.64^{\dagger}$		-13.54	
	(17.43)		(10.77)	
Dummy (Any bonus> 0)		-31.79*		$-17.56^{\dagger}$
		(15.40)		(9.63)
Period	-5.16**	-5.16**	-5.80**	-5.80**
	(1.25)	(1.24)	(0.95)	(0.96)
Constant	249.5**	249.5**	272.3**	272.5**
	(14.96)	(14.87)	(13.28)	(13.28)
Observations	100	100	170	170
R-squared	0.281	0.281	0.262	0.261

Notes: Only includes successfully funded projects. Random-effects regression, with standard errors clustered by sessions; robust standard errors are reported in parentheses. ** indicates coefficient is significantly different from zero at the .01 level; * at .05; † at 0.10 (all two-tailed tests).

in enhancing fundraising are studied by Goeree et al. (2005). Another example is the multi-stage mechanism of Gerber and Wichardt (2009) that pre-commits consumers to optimal contributions with conditionally refundable deposits. See Falkinger et al. (2000), Morgan and Sefton (2000), Lange et al. (2007), and Corazzini et al. (2010) for experimental evidence on the performance of these mechanisms. Dorsey (1992) and Kurzban et al. (2001) report previous experimental studies that allow upward revisions in pledged contributions targeting a provision point. For alternative fundraising methods, also see Varian (1994), Kominers and Weyl (2012), and Masuda et al. (2014). However, the practical applicability of many of these mechanisms is questionable because of concerns over group manipulability, distributive efficiency, and, most importantly, complexity. This perhaps explains why the simple provision point mechanism remains the most preferred choice of practitioners.[20]

The extension of the provision point mechanism with refund bonuses is a novelty in the literature on contribution mechanisms. At the same time, our findings in baseline (no bonus) treatments are in line with findings reported by recent related studies. Bigoni et al. (2015) find higher levels of cooperation in social dilemmas when actions are taken in continuous time. They explain this finding by noting that in continuous time agents can react more swiftly to instances of non-cooperative behavior.[21] Motivated by the practice of crowdfunding, Corazzini et al. (2015) focus on the effects of multiple projects on the average success rate. Similar to the present study, Corazzini et al. (2015) show reduced levels of contributions in treatments with multiple threshold public goods. They attribute this reduction to an augmented equilibrium coordination problem, for which we provide further support. Extending these earlier studies, our experiment considers the simultaneous funding of multiple threshold public goods with continuous time contributions, which is an environment closest to crowdfunding in practice.[22]

[20]Besides simplicity, another important advantage of the provision point mechanism is its "all-or-nothing" feature. As argued by, e.g., Kosfeld et al. (2009) and Gerber et al. (2013), minimum participation rules can reduce the severity of the free-riding problem and so can deadlines for collaborative projects (Bonati and Hörner (2011)).

[21]In contrast, in a public good environment Palfrey and Rosenthal (1994) report that repeated play (tantamount to discrete time) results in only a modest increase in the level of coordination and cooperation compared to one-shot play.

[22]Ansink et al. (2017) also consider continuous time contributions and multiple public goods, but in a very different environment with homogeneous and common knowledge valuations for the public good and a much longer (four-day) contribution window. Their focus is on seed money to help make specific projects more focal.

In general, the literature on dynamic contribution games gives mixed answers to the question of whether a time dimension facilitates contributions. The predicted outcome crucially depends on the structural aspects of the dynamic contribution game studied. Admati and Perry (1991) predict an inefficient allocation of resources when contributions are made in a sequential order and are sunk because of the opportunity to free-ride on earlier contributions. But this finding is not robust, as they demonstrate, to the case of non-sunk costs (which limits the scope of dynamic free-riding), nor to the simultaneity of periodic contributions (Marx and Matthews (2000)), nor to the asymmetry of contributors' valuations (Compte and Jehiel (2003)). In connection to the problem of dynamic free-riding, Battaglini et al. (2014) theoretically and Battaglini et al. (2016) experimentally demonstrate that the irreversibility of contributions is beneficial for public good outcomes, but again this result is not robust if the reversibility of contributions can be used for trigger strategies overcoming the free-riding problem (Lockwood and Thomas (2002), Matthews (2013)). As already discussed, the problem that early contributions can crowd out later contributions, thus leading to inefficient outcomes, was also emphasized by Fershtman and Nitzan (1991). But as Kessing (2007) and Cvitanic and Georgiadis (2016) show, this may not be the case if the public good is discrete. Our findings suggest that this difference in outcomes also depends on whether contributions are sunk. If they are not sunk, e.g., refunded, earlier accumulated contribution and individual continuation contributions may no longer be strategic complements even with discrete public goods. Moreover, contributions can actually turn into strategic substitutes if refund bonuses are offered.

A new and rapidly growing body of literature is concerned with securities-based crowdfunding; see Hakenes and Schlegel (2014), Da and Huang (2017), Brown and Davies (2018), Cong and Xiao (2018), Li (2018), and Cumming and Hornuf (2018). The main focus of this literature is on the economic mechanism of securities-based crowdfunding often referred to as the "wisdom of the crowd." Crowdfunding in that application serves not only as a financing method but also as an aggregator of dispersed information to better screen out inefficient projects. Our paper, however, does not directly relate to this strand of literature. In donation-based crowdfunding, as generally in public good provision, the main challenges are the problems of free riding and equilibrium coordination rather than project screening. Unlike securities-based crowdfunding, here the entire crowd stands to benefit from the project, not only the contributors. (Think of Wikipedia or any free web-based application.) Thus, if the crowd is large enough then the project is likely to be efficient.

Nevertheless, the mechanism with refund bonuses can still be useful for crowdfunding done for entrepreneurial projects. A number of papers (e.g., Belleflamme et al. (2014); Ellman and Hurkens (2016); Strausz (2017)) study a type of crowdfunding where an entrepreneur finances the investment into a new product out of funds raised from the crowd of consumers in return for the future delivery of the new product. The benefits of crowdfunding are shown to include the resolution of demand uncertainty, better market adaptation, higher profitability for entrepreneurs, wider community gains. Even though our paper does not directly relate to this strand of literature either, we note that crowdfunding for new products also suffers from the public good problem. In this type of crowdfunding, the public good is the opportunity of consumption for everyone. Those who do not participate in crowdfunding are likely to be better-off than those who participate because the former do not risk their funds in the case the project fails or falls short of expectations. These free-riders can still choose to consume after all these uncertainties are resolved. (Without such uncertainties free-riders may be worse-off, see Ellman and Hurkens (2016).)

7 Conclusion

The main objective of this work is to investigate whether refund bonuses have a potential to improve the present practice of crowdfunding for public goods. In theory refund bonuses can help mitigate the problem of equilibrium coordination by eliminating inefficient equilibria. We test the effects of refund bonuses in an experiment using a laboratory-based crowdfunding platform that features many important aspects of real-life crowdfunding. Our main result is that refund bonuses help resolve the problem of equilibrium coordination when such coordination is exacerbated by confounding factors such as the presence of alternative projects. Furthermore, our findings also demonstrate that refund bonuses can lead to significant economic gains even after accounting for their costs. Overall, our findings provide further support for attempting to modify crowdfunding with refund bonuses in the field.

We show that refund bonuses can be self-sustainable by modest fee surcharges levied from successful campaigns. Generally, there could be various sources of refund bonuses: a third-party donor, the campaigner's own funds, the public authority's contribution, etc. Arguably, propensity to contribute may well depend on the source of refund bonuses, the study of which requires a fully fledged research study of its own. Furthermore, such a study could also investigate the signaling role of refund bonuses. Specifically, refund bonuses and their size can credibly signal important aspects of the project, e.g., its value in the case of noisy private valuations, that can potentially help contributors better coordinate on efficient outcomes. The current study also considered only efficient projects, whose aggregate valuation exceeded costs. Future research can explore whether refund bonuses help (or hurt) in screening out inefficient projects that should not receive funding.

Our research shows the importance and effectiveness of incentives offered on the off-the-equilibrium path. Further research could also explore other designs of such incentives aimed at further efficiency gains. For instance, the time pattern of contributions documented in the final subsection suggests an alternative mechanism with time-varying refund bonuses that could more effectively promote contributions in practice. The current results indicate that contributions for successfully funded projects accumulate more quickly in the absence of refund bonuses. This pattern could be reversed by a new mechanism in which bonuses are only paid for contributions made during an early phase of the contribution window. This could raise initial phase contributions to a higher level; subsequently, later contributions during the period would not generate additional refund bonuses and the strategic complementarity of these contributions could push total contributions across the funding threshold.

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