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Complementarity in Contests

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To facilitate the study of contests in general equilibrium, we examine winner-take-all contests, in which the prize is complementary to the efforts of the contestants, as inputs are in production functions or final goods in utility functions. We focus on the effects of technological factors and endowments on the effort and the welfare of the contestants. Most of our findings differ considerably from the standard model of contests in which prize and effort are independent. In particular, we find a critical role for the elasticity of substitution between prize and effort. For example, under low elasticities of substitution, a higher prize reduces the effort exerted by the contestants.