Abstract

We conduct an experiment to examine the strategic use of trust in an environment similar to Berg, Dickhaut, and McCabe (1995) investment game. The environment differs in that the second mover is restricted to the binary choice of returning half of the tripled amount (fair split) or zero (selfish split). We use the theory of guilt aversion to explain the behavior in strategic and non-strategic environments represented by playing the game sequentially and simultaneously respectively. We find that in the sequential treatment first movers invest significantly more than when the transfer decisions are conducted simultaneously. Moreover, in line with the theoretical prediction, 95.2% of subjects who invested the entire endowment received half of the surplus. On the other hand only 5% of subjects who invested anything less than the entire endowment received half. In the simultaneous treatment the proportions yield 11.1% and 32.1% respectively. These allocations along with the beliefs collected in a salient manner are consistent with the predictions of guilt aversion.