Favoritism in Contests: Optimal Headstarts and Biases

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Abstract

We analyze the revenue-enhancing potential of favoring specific contestants in complete-information all-pay auctions and lottery contests with many heterogeneous contestants. Two instruments of favoritism are considered: Head starts, which are added to the bids of specific contestants, and/or multiplicative biases, that give idiosyncratic weights to the bids. We show that head starts are highly effective in all-pay auctions and less effective in lottery contests.

Using biases as additional instrument yields maximal revenue in the all-pay auction, while head starts are revenue-dominated by appropriately designed biases in the lottery contest. We characterize optimal head starts, biases, and the combination of both and show that they can be revenue-ranked in a complete and unambiguous way over the two contest forms all-pay and lottery, which holds for any degree of heterogeneity among contestants.