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## Incentives and Group Identity

by Paolo Masella, Stephan Meier, Philipp Zahn  
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### Abstract:

This paper investigates in a principal-agent environment whether and how group membership influences the effectiveness of incentives and when incentives can have "hidden costs", i.e., a detrimental effect. We show experimentally that in all interactions control mechanisms can have hidden costs for reasons specific to group membership. In within-group interactions control has detrimental effects because the agent does not expect to be controlled and reacts negatively when being controlled. In between-group interactions, agents perceive control more hostile once we condition on their beliefs about principal's behavior. Our finding contributes to the micro-foundation of psychological effects of incentives.

**Text:** See [Discussion Paper No. 6815](#)



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