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Better Coordination, Better Crowdfunding

Abstract

Millions of crowdfunding campaigns have raised billions of dollars for local public goods. But most crowdfunding campaigns fail in part because, we argue, the standard assurance contract has weak implementation properties that can lead to conditionally cooperative behavior and subsequent miscoordination. We extend the standard assurance contract with refund bonuses payable only if the campaign's target is not reached. We experimentally examine various fixed and proportional refund bonuses. Our special focus is on bonus designs aimed at encouraging early contributions and, thus, improving outcomes of conditionally cooperative behavior. We find that such designs are especially valuable as they nearly double the rate of campaign success at very low cost and are financially self-sustainable even after taking into account campaign failures. In short, better crowdfunding contracts can greatly increase the private and social value of crowdfunding.

(with Alex Tabarrok and Robertas Zubrickas)