

Title: Choosing Your Own Luck: Strategic Risk Taking and Effort in Contests

Abstract: We consider contests in which players choose not only their effort, but also the distribution of shocks affecting their output. We show that the presence of such strategic risk taking has a stark effect on the optimal allocation of prizes: The winner–take–all contest, whereby the entire prize budget is allocated to the top performer, maximises the expected effort (or output) of the contestants for a wide variety of cost functions, including convex, concave, and those with an inflexion point. We elucidate the extent to which the optimality of winner–take–all holds for a broader class of the principal’s objectives.