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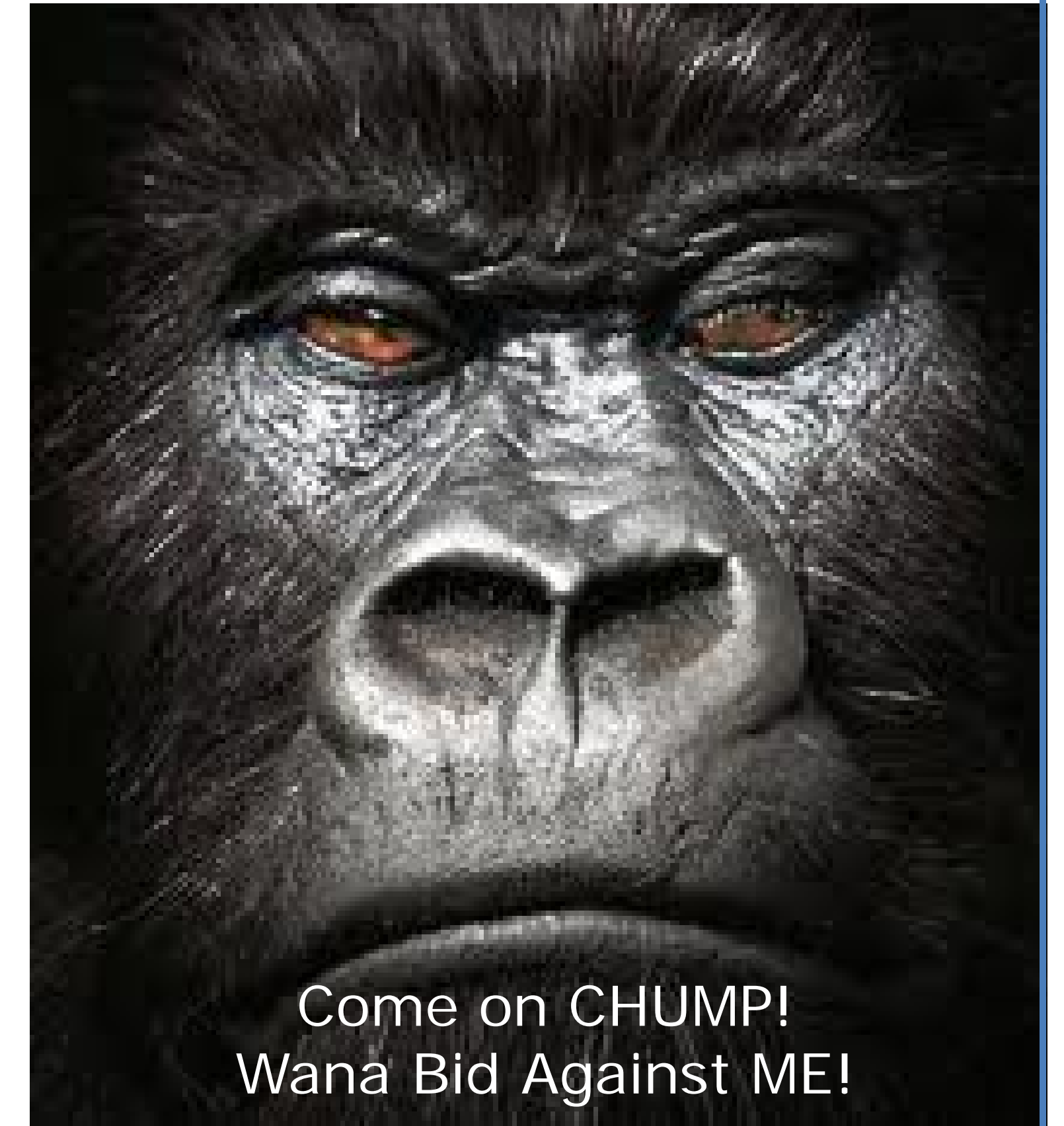
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BIDDING BEHAVIOR IN ALMOST COMMON VALUE ENGLISH AUCTIONS

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INTRODUCTION

- Almost common value auctions (ACV)– one bidder holds a value advantage.
- Advantaged bidder theory predicts:
 - advantaged bidder bids aggressively while disadvantaged bidder(s) bid passively to avoid the heightened *winner's curse* (Bikhchandani 1988; Klemperer 1998; Rose and Kagel 2008).
 - *EXPLOSIVE EFFECTS* - advantaged bidder wins all units and pays prices below the second highest reservation bid.
- Experimental research has shown mixed evidence of *EXPLOSIVE EFFECTS* :
 - No *EXPLOSIVE EFFECTS* - Levin and Kagel 2005; Rose and Levin 2008.
 - Some *EXPLOSIVE EFFECTS* - Coatney, Shaffer and Menkhaus 2012:
 - advantaged bidder won most units at prices below disadvantaged bidders.
- Lack of congruency between theory, experimental and empirical literature.
 - Theory *in re* real world – no outside option for disadvantaged bidders.
 - Experimental findings – no outside option and did not account for bidder psychology.
 - Real world empirical analyses – strategic bidding could not be econometrically identified.



OBJECTIVES

- Allow bidders an outside option. If you had your druthers, would you take on the beast?
- Account for relevant psychological attributes of bidders. Theoretical results require a stone cold killer v wimps.

METHODS

- Experiments conducted at Mississippi State University.
- Subject pool – primarily upper level undergrads and graduate students from the Department of Agricultural Economics.
- Control for bidder psychological attributes of:
 - assertive behavior - Rathus Assertiveness Schedule
 - aggressive behavior – Buss & Perry Aggression Test
 - altruistic behavior – Dictator Game
 - risk aversion – Holt and Laury Test.
- Conducted 2 ACV treatments – 6 replications each:
 - ACV English Auctions – with and w/o outside option
 - 4 bidders – 1 advantaged bidder - 4 auction sessions – each bidder advantaged once per replication



RESULTS

- ACV – no outside option – no *EXPLOSIVE EFFECTS* as in (Levin and Kagel 2005; Rose and Levin 2008).
- ACV – with outside option – no *EXPLOSIVE EFFECTS* , however, **(i)** significant exit of disadvantaged bidders, **(ii)** advantaged bidder won most units at lower prices than disadvantaged bidders as in Coatney, Shaffer and Menkhaus (2012).
- Psychological Attributes – **(i)** More assertive participants are more likely to stay in the auction when there's an outside option and are more likely to stay in the bidding longer. **(ii)** More altruistic participants are more likely to drop out of the bidding early or not enter at all. **(iii)** Risk aversion has no effect on whether bidder participates in auction but more risk averse participants dropout of the bidding earlier. **(iv)** Aggression results were mixed.

CONCLUSIONS

- The results of real world auctions are more consistent with ACV theory with an outside option.
- Bidder psychology matters. To observe the *EXPLOSIVE EFFECTS*, the advantaged bidder must be willing to exert their advantage and disadvantaged bidders must be willing to yield to the advantaged bidder.