



You are cordially invited to

UCLouvain Economics Seminar

On Thursday November 15, 2018, from 12:45 to 14:00
Doyen 22, Place des Doyens, 1

Antonio Rosato
(University of Technology Sydney)

Will give a presentation on

Projection of Private Values in Auctions

Abstract:

This paper explores how taste projection --- the tendency for people to overestimate how similar others' tastes are to their own --- affects bidding in auctions. We consider auctions for a good with both private and common value elements. We model projection by assuming bidders with higher private values perceive a distribution of valuations that first-order stochastically dominates the perception of those with lesser private values. Hence, while in reality valuations are independent across bidders, under projection high-value bidders think high private valuations, or "tastes", are relatively more common, while low-value bidders think the opposite. We draw out the implications of projection in first- and second-price sealed-bid auctions and English auctions. In the case of pure private values projection leads players to misperceive the extent of competition. This induces overbidding in first- price auctions, but has no effect in second-price or English auctions. Hence, a first-price auction yields higher expected revenue than a second-price or English one. If the good also has some common-value component, players need to draw inferences about others' signals from their equilibrium bids. Projection leads to distorted inferences which reduces efficiency in a second-price auction, but increases efficiency in a first-price one.

(Joint paper with Tristan Gagnon-Bartsch and Marco Pagnozzi)

Information: Gonzague.vannoorenberghe@uclouvain.be