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## Auctions with Shallow Pockets

A non-technical summary of the thesis, “Sequential Auctions with Financially Constrained Bidders”

Not everyone goes to an auction with deep pockets. Managers may be sent to bid for a oil lease, a mobile-phone licence, or the rights to a book – but they will not be given a blank cheque by their superiors.

The Economics of “Monopoly”

When bidders on a budget get involved in a series of auctions, but have limited funds, other bidders may act to exploit it. This is the way any skilled player of Monopoly operates – driving up the bidding on Park Lane, to prevent the hotel on Mayfair.

Joint Bidding might help...

Common sense (and bitter experience from real auctions) suggests that if bidders can make joint bids, then the seller will suffer. But if weak bidders – with shallow pockets – team up to face a stronger opponent, then the seller may be better off after all.

...so might royalties

Standard auction theory also argues against auctions with royalty payments, which are inefficient in an ideal auction. But in the real world, royalty agreements are often used. This model shows why.

Turn up late in the day, get bargains

The “afternoon effect” is the well-known tendency of auctions for absolutely standard lots (like crates of wine) to raise less and less money as the day goes on. If bidders are exploiting each others’ lack of funds, this explains everything. The bidder with the deepest pockets lets the early lots go at an expensive – but not excessive – price, using up the funds of weaker bidders. Then later in the day, the strong bidder cleans up at bargain prices. The solution: provide cheap credit to anyone who turns up at your auction.

Watch out for collusions of poverty!

The last lesson is that bidders may have a new way to collude – if everyone turns up to a set of auctions with limited cash, then all the bidders will walk away with bargains. It’s a way of strategically limiting the possibility of proper competition.

The full thesis, “Sequential Auctions with Financially Constrained Bidders”, is available for the curious. .