

TITLE (tentative)

Auctions with frictions (with focus on costly bidder recruitment)

ABSTRACT

■ Costly recruitment of bidders is an important element of auction and auction-like market situations.

ISSUES DISCUSSED IN CONTEXT OF COSTLY RECRUITMENT

■ Observability and commitment

■ Bidders' costly participation/information acquisition.

■ Bidders' "excessive caution" in bidding.

■ Auctioneer's private information.

LESSONS/INSIGHTS

■ Systematic inefficiencies arising from the interaction of recruitment efforts with other frictions.

■ Observations on comparative performance of different formats.

SHORT SUMMARY OF TALK

Assets and contracts are often traded by a sort of auction or similar procedure. An important element in such situations is the costly recruitment of bidders. This paper focuses on this aspect and examines its interaction with other important frictions.

The model features a seller who can affect at a cost the Poisson distribution of the number of bidders. We consider both the case in which bidders who choose to participate incur participation/information acquisition costs and the case in which they do not. Among the issues discussed are the following.

■ Tension between seller's desire to induce aggressive bidding and induce participation. In particular, we show that for a certain range of recruitment costs, an auction in which bidders do not observe the number of competitors might "collapse", even if bidders bear no cost of entry, while under the same conditions an auction in which the bidders observe the number of competitors may survive.

■ Inefficiency in the form of wasteful recruiting effort (even when cost of contacting a bidder is small).

- This arises in an IPV environment with costly bidders' participation/information acquisition.

- It also arises in a CV environment due to bidders' "excessive" caution.

■ Seller's private information is injected into bidding and prices through the recruitment effort.

- Seller types who are efficient recruiters exert a negative "externality" that may restrict trade.

- In the extreme, this might lead to complete unraveling of market.