27.5 Common Values and Auction Wrap-up

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Common Values, Private Information, + Winner's Curse

Book [10, 20] ← mechanic bids

is

Body observed by 1 → C_B

[10, 20] is mechanic observed by 2 → C_M

$EV_1 = 70 - C_B - 15$ → $70 - C_B - C_M$

$EV_2 = 70 - 15 - C_M$

↳ EV_1 too high if $C_M > 15$ → "winner's curse"

↳ Bid much less than EV_i

If C_B + C_M uniform on same interval,

$b_i = 70 - C_B - 20$

$b_2 = 70 - C_M - 20$