**Microeconomics III, Session 9**

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| 10:15 (5) | Welcome: Today there’s a lot of algebra. The slides cover most of it, but feel free to ask if it’s unclear.  Outline: I uploaded my suggested solutions to the A-exercises two days ago, so we will focus on 3-5 now |  |
| 10:20 (40) | Ex. 3: First- and second-price sealed bid auctions with two bidders |  |
| 11:00 | 15 min pause |  |
| 11:15 (35)  11:50 (10) | Ex. 4: First-price sealed bid auctions with three bidders  **b.** *Intuitively,* more bidders decreases the chance of winning, which should lead to less bid shading (2/3>1/2) and therefore a *higher* revenue for the seller.  *Analytically,* we can confirm this: I.e. except for the rare case where all players have the valuation , the seller's revenue is strictly higher with three players than with two players.  **c. 2nd step:** *Why is the ex-ante expected payment lower than in exercise 3.b?*Though the bids are higher, the expected payment from each bidder is lower due to a lower probability of winning.  **c. 3rd step:** *Despite that, why is seller’s revenue higher than in exercise 3.b?*The seller can expect higher revenue as more players increases competition and the chance of one having high valuation. |  |
| 12:00 | 15 min pause |  |
| 12:15 (35)  12:50 (10) | Ex. 5: Winner’s Curse  **c.** Looking at the inequality above, explain the difference between (b) and (c)  *in other words, why is company 1 less certain that the value is high after they win the auction?*  This is an example of The Winner's Curse: The equally trustworthy reports of the two companies cancel each other out. Since the valuations of the auctioned object are correlated, you are likely to win the object when you overestimate the value. |  |