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Bidding Behavior and Price Search in Internet Auctions

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Highlights

- I study a stylized dynamic auction that allows bidders to acquire information on outside prices while the auction is in progress. This is a typical feature of auctions commonly encountered on the Internet. The model has two rounds of bidding. Between the first and the second round bidders can perform a costly search and obtain and outside price quote. Bidders are heterogeneous in their search costs.

- I characterize a symmetric bidding equilibrium in which early round bidding emerges as a "coordination device" for search decisions. The key part of the equilibrium is the searching-when-losing strategy by which only the bidder with the highest early bid remains passive and avoids performing a costly search. The equilibrium is efficient.

- An extension of the model with private outside prices produces a surprisingly rich behavior. There are three type segments. Bidders in the low segment always search and bid just late in the auction; middle cost segment bid early, search only if outbid and possibly revise their bids late in the auction; the high cost segment bid just early and remain passive. Thus, in equilibrium, I obtain three bidding patterns early, ate and multiple bidding that are commonly observed in the data from Internet auction sites.

- The equilibrium is robust with respect to stochastic entry and exit. In this case an additional reason for late bidding arises from the possibility that the bidder may be absent from bidding late in the auction. Other extensions are possible but not pursued in this paper.

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