

Auctions with Frictions

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Abstract:

Many markets are characterized by some forms of price competition. Auctions provide a convenient model of such informal price competition. However, existing models need to be extended to capture certain frictions that are more salient with informal price competition. In particular, the participating bidders may be the outcome of recruitment efforts by the seller, and not all potential bidders may be willing to participate or submit serious bids. In addition, the private information of the seller may be more consequential. Finally, the seller's commitment abilities may be limited. We develop a model of auctions with bidder recruitment and limited seller commitment that captures such scenarios and derive some novel predictions. In particular, outcomes are often inefficient, and the markets sometimes unravels.