

Competition and Cooperation in Divisible Good Auctions: An Experimental Examination

Orly Sade, Charles Schnitzlein
and Jaime F. Zender

NOTA DI LAVORO 15.2004

JANUARY 2004

PRA – Privatisation, Regulation, Antitrust

Orly Sade, *Jerusalem School of Business, Hebrew University of Jerusalem*
Charles Schnitzlein, *College of Business, University of Central Florida*
Jaime F. Zender, *Leeds School of Business, University of Colorado at Boulder*

This paper can be downloaded without charge at:

The Fondazione Eni Enrico Mattei Note di Lavoro Series Index:
<http://www.feem.it/Feem/Pub/Publications/WPapers/default.htm>

Social Science Research Network Electronic Paper Collection:
<http://ssrn.com/abstract=445240>

The opinions expressed in this paper do not necessarily reflect the position of
Fondazione Eni Enrico Mattei

Competition and Cooperation in Divisible Good Auctions: An Experimental Examination

Summary

An experimental approach is used to examine the performance of three different multi-unit auction designs: discriminatory, uniform-price with fixed supply, and uniform-price with endogenous supply. We find that the strategies of the individual bidders and the aggregate demand curves are inconsistent with theoretically identified equilibrium strategies. The discriminatory auction is found to be more susceptible to collusion than are the uniform-price auctions, and so contrary to theoretical predictions and previous experimental results, the discriminatory auction provides the lowest average revenue. Consistent with theoretical predictions, bidder demands are more elastic with reducible supply or discriminatory pricing than in the uniform-price auction with fixed supply. Despite a lack of *a priori* differences across bidders, the discriminatory auction results in significantly more symmetric allocations.

Keywords: Divisible good, Auctions, Experimental economics

JEL Classification: C90, D44

This paper has been presented at the EuroConference on "Auctions and Market Design: Theory, Evidence and Applications" organised by Fondazione Eni Enrico Mattei and sponsored by the EU, Milan, September 25-27, 2003.

We thank Emmanuel Morales-Camargo for his excellent research assistance. We also thank Yigal Arnon, the CEO and the employees of Bank Leumi of Israel and the management and the employees of the Monetary Department of the Bank of Israel for all their help in gathering the data from the professional participants. We have benefited from comments by Haim Levy, Frans van Winden, Atanu Sinha, Jill Zender, Nathalie Moyen, seminar participants at the IDC, the Hebrew University of Jerusalem and the Technion, and participants at the 2002 ESA meetings at Harvard. Sade thanks the Krueger Center for Finance at the Hebrew University of Jerusalem for partial financial support.

Address for correspondence:

Orly Sade
Jerusalem School of Business
Hebrew University of Jerusalem
Mount Scopus
Jerusalem 91905
Phone: (972) 2 588 3227
E-mail: orlysade@mscc.huji.ac.il

1. Introduction

The Treasuries in many countries use auctions to sell their securities to individual investors and institutions with formalized auction procedures most common in countries with well developed financial markets. While the institutional details differ in a variety of subtle ways, a principal dimension on which the auctions differ is in the pricing rule employed: most use a variant of either a uniform or a discriminatory pricing rule. The majority use a discriminatory mechanism, although in recent years there are examples of countries switching from the discriminatory to the uniform-price format (notably the U.S. Treasury) and cases of countries making the reverse change (*e.g.*, France) indicating that the choice between these mechanisms remains an unsettled issue.¹

We use the experimental economics laboratory to examine some of the tradeoffs implicit in the choice over auction designs. In addition to comparing the two major pricing rules in a multi-unit, common value auction setting, we also study an aspect of the auction design problem that has only recently received theoretical attention: allowing the seller to endogenously select quantity after observing the bids.

Much of the debate on Treasury auction design focuses on the revenue implications of the alternate pricing rules. Milton Friedman and others advocated a switch by the U.S. Treasury from its discriminatory format to a uniform-price auction. It was conjectured that the discriminatory auction was more susceptible to collusion than a uniform-price format. Friedman argued that, bidders being awarded allocations at prices greater than the stop-out price would (1) have the effect of driving out unsophisticated bidders and (2) increase the incentive for participating bidders to collude.

¹ See Bartolini and Cottarelli (1997) for cross-country evidence on the design of Treasury auctions.

Recent work in the theory of multi-unit auctions has identified an added dimension to the problem of Treasury auction design. This work shows that there exist non-cooperative equilibria under the uniform-price format that support non-competitive outcomes. Since the discriminatory auction does not suffer from this problem, an implication is that the more severe winner's curse and potential susceptibility to collusion of the discriminatory format may be less costly for the auctioneer than the "collusive-looking" outcomes possible with uniform-pricing.²

Recent theoretical work also examines the implications of allowing the Treasury the option of adjusting the quantity sold after observing the bids in uniform-price auctions. Back and Zender (2001) show that having the seller retain the right to reduce the quantity offered limits the ability of bidders to use their bids to inhibit competition.³

To explore these arguments, we ask whether the use of discriminatory pricing or reducible supply is more effective in eliminating the bidders' strategic advantage in multi-unit auctions. We consider this question by directly comparing actual bidding behavior with equilibrium bidding strategies. We also examine whether the discriminatory auction is actually more susceptible to collusion than the uniform-price auction, as has been suspected. Since Treasury auctions in many countries involve a small number of bidders that interact periodically (characteristics that facilitate cooperative behavior), the experimental design is intended to study relative performance in a setting where both cooperation and competition are plausible outcomes. Of primary interest is the facility of the different mechanisms in promoting competitive behavior.

² For example, see Wilson (1979), Back and Zender (1993), Ausubel and Cramton (1996) or Wang and Zender (2002) for theoretical evidence on strategic bidding in multi-unit auctions.

³ McAdams (2000) extends this result by allowing the seller to increase the supply.

Despite theoretical progress in analyzing multi-unit auctions, definitive comparisons of the expected revenue and other measures of the performance of alternative auction formats are difficult to accomplish. The strategy space in these games is large and there exist multiple equilibria. In addition, typical features of Treasury auctions make it appropriate to model them as a repeated game. (In most countries, for example, there are a small number of active bidders and frequent auctions.) The propensity of alternative auction mechanisms to resist tacit collusion or attempts at outright cooperation is a primary aspect of auction performance.⁴ All of the foregoing issues make the experimental laboratory a natural direction in which to turn.

Our experimental design compares the performance of three distinct auctions: uniform-price; discriminatory (both multi-unit auctions in which the quantity offered at auction is fixed and completely price inelastic, labeled uniform-fixed and discriminatory in the sequel); and uniform-price with endogenously determined supply (in which the seller may reduce the quantity sold after observing demand, labeled uniform-reducible). We use a common values setting in which bidders understand that they are playing a repeated game and participate in at least fourteen auctions in a session. Five bidders participate in each session (a large body of experimental evidence indicates four agents are sufficient in many situations to imply a competitive outcome). Subjects are allowed to engage in nonbinding communication both before and during the conduct of the auctions; however, absolute privacy is maintained with respect to their actions. We thus

⁴ Klemperer (2002) argues that most issues in the auction literature are of second-order importance for practical auction design. Discouraging collusive, entry-deterring, and predatory behavior are the key concerns he identifies.

study relative mechanism performance in a setting for which the competitive outcome is expected but barriers to cooperative behavior are low.

Our major results are as follows. Bidding strategies under all three auction mechanisms are inconsistent with the equilibrium strategies identified by theory. This is true for both individual demand curves and aggregate demand curves. As predicted by theory, the uniform-reducible mechanism leads on average to higher revenue than the uniform-fixed mechanism, although the difference is not statistically significant. We also find that the discriminatory mechanism is the most susceptible to collusion. Contrary to the theoretical prediction, this results in lower revenue than either uniform-price auction.

In many markets the seller is concerned not only with the auction's revenue but also with the effect of the auction on secondary market trading. Treasuries recognize that more symmetric allocations in the primary market can promote higher market quality in the secondary market by making short squeezes less likely. We therefore also examine the symmetry of the allocations across the auction types. Despite the lack of *a priori* differences across bidders, we find allocations are more symmetric under the discriminatory price mechanism than under the uniform-reducible, with the uniform-fixed mechanism taking an intermediate value.

Variation in revenue across similar auctions is an additional dimension of auction performance. Consistent with the theoretical predictions, we find that the uniform-fixed auction has the highest variation in revenue (this is the only mechanism that supports multiple Nash equilibria given our parameterization), while the discriminatory price auction has the lowest variation in revenue.

Most of the large experimental economics literature investigating auctions has focused on single-unit auctions. An extensive review of this literature is provided in Kagel (1995). A relatively small number of experimental papers have addressed auction design where multiple units are for sale. Smith (1967) compares uniform-price and discriminatory auctions in a common value setting arbitrarily restricting the maximum quantity each bidder may bid for at two units. He finds that the variance of bids is greater under the uniform-price auction, but does not find significant differences with respect to revenue. Miller and Plott (1985) compare uniform-price and discriminatory auctions in a private-value setting where the maximum bid is restricted to two units and also find inconclusive evidence concerning revenue. Cox, Smith, and Walker (1985) compare multi-unit discriminatory and uniform-price auctions where bids are restricted to a single unit. Despite the presence of ten bidders in each session and no communication, they find evidence of tacit collusion in sessions with experienced subjects.

Our paper is most closely related to Goswami, Noe, and Rebello (1996) (GNR). GNR investigate the role of communication in the adoption of equilibrium strategies in uniform-price and discriminatory auctions. Using eleven bidders per session with fixed supply under both formats, they find that with nonbinding communication, revenue is higher in the discriminatory auctions and that the uniform-price auctions are subject to collusion. However, the small number of experimental sessions used by GNR precludes strong conclusions from being drawn from their investigation.

This study is distinct from GNR's examination in that we find a reverse ordering for revenue in the uniform-price and discriminatory auctions as well as provide an experimental examination of the implications of endogenous supply. In addition, we use

an experimental design more conducive to coordination than the GNR setting. Finally, we use both students and finance industry professionals as subjects in order to examine the potentially important role of subject sophistication in market outcomes.

This paper is organized as follows. Section 2 describes the theoretical foundations of our experiment. In section 3 we discuss the experimental design, and present our results in section 4. Section 5 presents some robustness tests. Section 6 contains concluding remarks. The appendix contains the instructions to the participants.

2. Theory

In multi-unit auctions bidders may submit multiple price quantity pairs (demand schedules) as bids. Bids are aggregated and the highest price at which aggregate demand equals supply is the stop-out price. Winning bids are those submitted at or above the stop-out price. In a uniform-price auction the stop-out price is paid for all winning bids and in a discriminatory auction the price paid for winning bids is the bid price.

The strategic advantage enjoyed by the bidders in a uniform-price auction may be explained as follows. In a uniform-price auction bidders are able to submit “steep” (inelastic) demand schedules that result in their sharing the total quantity at a price far below the value of the good. Such an outcome can exist as an equilibrium outcome if the bid schedules are “steep enough.” The pricing rule in a uniform-price auction implies that any deviations from the equilibrium bids that allow a bidder to capture an amount greater than his/her equilibrium allocation are unprofitable. Capturing additional quantity (which is desirable because price is below value) requires bidder i to “out bid” other bidders for their equilibrium allocations. The steepness of the bid functions implies that

the price paid for *all* units rises significantly for each additional unit captured in any deviation. In essence, the steep demands submitted by the other bidders make marginal cost higher than price for additional units and so act to inhibit price competition among the bidders in equilibrium. Further, given the uniform-price format, the high inframarginal bids that support the equilibrium are costless to the bidders. In equilibrium, the steeper are the individual demand curves, the lower is the stop-out price that may be sustained (see Theorem 1 in Back and Zender (1993)).

In a discriminatory auction, bids submitted far above the equilibrium stop-out price are not “costless” as they are in the uniform-price format. All winning bids are filled at the bid price. As compared to the uniform-price auction, bidders in a discriminatory auction therefore tend to submit “flatter” bid functions. This induces more price competition among bidders in a discriminatory auction. In other words, the discriminatory pricing rule implies that, regardless of the “shape” of the bid functions submitted by the other bidders, marginal cost to a bidder of an additional unit always equals price. Therefore, in a “frictionless” auction game the competitive outcome obtains in any equilibrium (see Theorem 3 in Back and Zender (1993)).

While the use of discriminatory pricing does a “better” job of countering the strategic advantage given to bidders in a divisible good auction than does a uniform-price rule, it also suffers more from the “winner’s curse” if the environment includes private information and affiliated valuations. It is therefore important to evaluate the extent to which the potential pitfalls of the standard uniform-price framework may be “cured.”

One common feature of treasury auctions is that the seller often retains the right to change the quantity sold after observing the bids. Back and Zender (2001) evaluate this

feature of uniform-price auctions and show that it eliminates “most” of the equilibrium outcomes for which the equilibrium stop-out price is below the value of the good. A seller, acting to maximize revenue, will find it optimal to restrict supply when the aggregate demand curve is “steep enough” that the reduction in quantity sold is more than offset by the increase in the resulting stop-out price. Bidders are rendered strictly worse off by any *ex post* quantity reduction, so this feature of the auction places a limit on how steep the individual bid functions may be in any equilibrium. Because steeper demands are associated with lower sustainable stop-out prices, limiting the slope of the equilibrium bid functions effectively restricts the extent to which bidders may exercise their strategic advantage (see Back and Zender (2001) Theorem 2).

The experiment in this paper examines the mechanism design results discussed above. We use an auction game in which $N = 5$ bidders compete for $Q^* = 26$ units of a good labeled a widget. In order to abstract from concerns over the winner’s curse and concentrate on the strategic aspects of the auction, we ensure that it is common knowledge among the bidders that the after-market value of the widget is 20. As bids in each auction, each bidder submits quantity orders at 4 distinct prices. Quantities must be for an integer number of units (the aggregate quantity demanded by each bidder is restricted to be in the interval $[0, Q^*]$) and the allowable prices are given by the set $\{17, 18, 19, 20\}$. Each quantity order is an offer to purchase the specified number of units at a price equal to or below the price at which the order is submitted.

Beginning with quantities submitted at a price of 20, the seller aggregates all demands to create a downward sloping aggregate demand curve. In the auctions with fixed supply the stop-out price is established as the highest price at which supply equals

or exceeds the fixed supply. Winning bids are those submitted at or above the stop-out price. All quantities demanded at prices strictly above the stop-out price are filled. For orders submitted at the resulting stop-out price bidders may be rationed.

Rationing is done in a *pro-rata* fashion. Specifically, the aggregate quantity demanded at the stop-out price is computed. For each bidder, the quantity demanded at the stop-out price is divided by the aggregate quantity demanded at the stop-out price to determine the proportion of the rationed quantity that bidder is to receive. The rationed quantity is determined by subtracting the aggregate quantity demanded at all prices strictly above the stop-out price from the supply Q^* . The case of a uniform-price auction with reducible supply will be described more completely below.

The Uniform-Price Auction with Fixed Supply

Because there is no *a priori* reason to assume any of the bidders is different from the others, we will confine our discussion to the symmetric equilibria that exist in the auction games we examine. For the case of the uniform-price auction with fixed supply, a simple application of the analysis in Back and Zender (1993) indicates that there exist 4 possible equilibrium stop-out prices; each of the allowable bid prices can be supported as the equilibrium stop-out price by an appropriate set of equilibrium bid functions. The analysis of the equilibria in the discrete framework is an application of proofs in Back and Zender (1993) and closely follows GNR (1996).

The bidders can reach a competitive outcome in a symmetric Nash equilibrium of the uniform-price auction if all bidders submit bids for at least 6 units at a price of 20. As discussed above, to support equilibria with stop-out prices less than the competitive level the equilibrium bid functions must be increasingly steep as the target stop-out price is reduced. The result can be summarized as follows:

Proposition 1: *There exist symmetric Nash equilibria of the uniform-price auction with fixed supply that result in stop-out prices at any of the four possible price levels. (i) If all bidders submit demands for 3, 4, or 5 units at a price of 20, demand no units at 18, 21 units at a price of 17, and demand the balance of the 26 total units at 19, the equilibrium stop-out price will be 17. (ii) A stop-out price of 18 can be supported if all bidders submit demand curves with a total demand of 5 units at prices of 20 and 19, with at least 4 units demanded at 20, and 21 units demanded at 18. (iii) A stop-out price of 19 can be obtained in equilibrium if all bidders submit demands for 5 units at a price of 20 and demand for 21 units at 19. (iv) The competitive outcome is an equilibrium if all bidders submit demands for 26 units at a price of 20. In all of the symmetric equilibria each bidder will receive 5 and $1/5^{\text{th}}$ units.*

A difficulty in working with the uniform-price auction is the multiplicity of Nash equilibria. Only the Pareto dominant equilibria, those with stop-out prices of 17, are coalition proof (see Bernheim, Peleg, and Whinston (1987) and the discussion in Goswami, Noe, and Rebello (1996)). We will focus on these equilibria in our analysis.

Discriminatory Auctions

Theorem 3 in Back and Zender (1993) indicates that in a discriminatory auction, when the value of the good is common knowledge, the good is perfectly divisible, and the price grid is continuous, the competitive outcome is obtained for the seller in any Nash equilibrium. The common knowledge aspect is important in eliminating any issues related to the winner's curse, and continuity is necessary so that price competition can be as effective as possible. In the auction presented here there are actually two equilibria. The first is the competitive equilibrium in which all bidders submit bids of 26 units at a price of 20. This results in the bidders receiving none of the surplus from the auction and is an equilibrium in weakly dominated strategies since there is never any possibility that a positive payoff will result from bids at a price of 20. The second equilibrium has all bidders bidding for 26 units of the good at a price of 19. While this is not the competitive outcome this is an equilibrium of the discriminatory auction because the value of the good is known to be equal to the next available bid price. A bidder who bids for any

positive quantity at a price of 20 will always receive a zero payoff on those units. Essentially, discreteness in the allowable price levels acts as a friction that limits the extent of price competition.

Proposition 2: *The only Nash equilibrium in undominated strategies in a discriminatory auction has all bidders submitting demands for 26 units at a price of 19.*

If any bidder plays this equilibrium strategy then the others will find the same strategy optimal. Bidding for a positive quantity at a price other than 19 will have a zero payoff if each bidder expects at least one other bidder to play the equilibrium strategy.

Uniform-Price Auction with Reducible Supply

In this version of the auction the seller announces a target supply of Q^* at the beginning of the auction but retains the right to reduce the actual quantity supplied below this level after observing the submitted bids. The seller is assumed to maximize profit. For purposes of illustration, suppose the seller faces a cost for deviating from the announced supply and model this cost as $C(Q) = k(Q^* - Q)$, for some positive parameter k . After observing the submitted bid functions the seller aggregates the bids and then chooses $Q \leq Q^*$ to maximize his net profit.

When the seller retains the right to reduce supply, the set of equilibrium outcomes is reduced as compared to the set of equilibria in the fixed supply case. Because the seller is able to reduce the supply, bidders have an incentive to submit as “flat” a bid function as possible to support a given stop-out price as an equilibrium. The extent to which the set of equilibria is reduced depends upon the parameter, k , in the seller’s cost function. For this discussion we examine two values for the cost parameter: 0 and 8. With a cost parameter of zero, the only equilibrium of a uniform-price auction with reducible supply is the competitive equilibrium. The willingness of the seller to deviate

from the announced supply induces the bidders to submit bid functions so flat that only a stop-out price of 20 can be sustained in equilibrium. With a cost parameter of 8 the seller is very reluctant to reduce supply *ex post*; consequently, only a stop-out price of 17 cannot be supported in equilibrium.

Proposition 3: *In a uniform-price auction with reducible supply: (i) If the seller faces no cost of deviating from the target quantity Q^* the only equilibrium is the competitive outcome. (ii) If the seller has a cost parameter $k = 8$ for deviations from the target quantity then the prices 18, 19, and 20 can be sustained in an equilibrium. In order to sustain 18 as an equilibrium stop-out price bidders must submit demands for 4 units at a price of 20, 1 unit at 19 and 21 units at 18 (i.e., submit the “flattest” of the equilibrium bid functions presented in Proposition 1).*

In our experiments we use a cost parameter of 0 in order to provide the maximum impact for the seller’s right to choose supply *ex post* and the existence of a unique equilibrium.

A notable aspect of these strategies is that the bids for the first 6 units enforce the equilibrium stop-out price. For example, consider the equilibrium in the uniform-price auction with fixed supply in which bidders submit demands for 5 units at a price of 20 and 21 units at a price of 18. These demands result in a stop-out price of 18 and a symmetric allocation of the good. The bid for 5 units at a price of 20 allows the equilibrium stop-out price to be lower than value and the first unit demanded at 18 establishes the level of the stop-out price. The other 20 units demanded at the price of 18 are simply there to ensure each bidder gets the largest possible share of the “26th unit.”

The use of the Nash equilibrium concept lies behind the shape of the “tail” of the equilibrium strategy. If bidders believe there is a significant chance others may deviate from the equilibrium strategy they may use their bids for the final 20 units differently than is described by the equilibrium strategies. It will therefore be interesting not only to compare the actual total demand curves with the equilibrium strategies, but also, to compare the demands placed for the first 6 units with the equilibrium strategies.

In summary, the theoretical predictions are:

1. Bidders' demand curves should be flatter and include less of a discount from the value of the good in the discriminatory auction as compared to those submitted in the uniform-fixed auction.
2. Bidders' demand curves should be flatter and include less of a discount from the value of the good in the uniform-reducible auction as compared to those submitted in the uniform-fixed auction.
3. Average revenue to the seller should be highest under the uniform-reducible supply mechanism followed by the discriminatory mechanism and lowest for the uniform-fixed auction.
4. Allocations of the good in the auctions should be symmetric without significant differences across the different mechanisms.
5. The multiplicity of equilibria in the uniform-fixed mechanism allows for more variation in revenue across auctions than do the other mechanisms.

3. Experimental Design

3.1 Auction Rules

In each auction, subjects bid for units of a good that we call widgets. There were 26 widgets available for sale in each auction. All monetary values are denominated in an experimental currency referred to as Francs (Fr.). The resale value of each widget auction was Fr. 20 for all subjects, and this was common knowledge at the start of bidding. Each subject submitted a schedule of bids at a computer terminal. Each subject was permitted to bid for at most 26 units in total at the permissible prices Fr. 17, Fr. 18, Fr. 19, and Fr. 20.

Once all the bid schedules are submitted, the computer assigns widgets to subjects, allocating supply to the highest bids. Under the discriminatory and uniform-fixed mechanisms this process continues until the available supply of 26 widgets is exhausted. In the case where demand at the highest price that clears the market (stop-out price) exceeds supply, units are allocated in proportion to each bidder's percentage of the aggregate demand at that price. Under the uniform-reducible mechanism, the computer allocates the number of widgets less than or equal to 26 that maximizes revenue.

In the uniform-price auctions, all the subjects pay the same price (the stop-out price) for each widget allocated and their payoff from each auction equals the difference between the resale value for each widget (Fr.20) and the stop-out price times the number of widgets allocated. Under the discriminatory auction, the computation of each subject's payoff is similar except that each unit allocated is sold at the bid price for that unit.

3.2 Experimental Methodology

Each experimental session consisted of 5 subjects and each cohort of 5 subjects was involved in a single experimental treatment. We employed both students and finance industry professionals as subjects. The students were senior undergraduate, MBA, and MIS students. All had had at least one course in finance, and courses in statistics and economics. There were two types of professional subjects. The first group consisted of employees of the monetary department of the Bank of Israel, which is responsible for the design and routine conduct of the notes auctions and for the routine conduct of the bond auctions for the Israeli Treasury. The second consisted of three cohorts of mutual fund and pension fund managers at a leading investment bank in Israel. All members of this second group had had experience with financial asset auctions.

Table 1 lists the information pertaining to each experimental session. Five repetitions of the uniform-fixed and the discriminatory treatments and four repetitions of the uniform-reducible were conducted with students. Two repetitions of each treatment were conducted with professionals. There were at least 14 auctions conducted in each experimental session with the exact number chosen randomly. In order to control for experience effects, we analyze only the first 14 auctions in each experimental session.

At the start of each experimental session, subjects were seated in a conference room and given written instructions. The instructions explain the auction rules, the basis on which cash payments are made, and include images that introduce the subjects to the auction software used to conduct the experiment. The instructions were read aloud, and subjects were then given the opportunity to ask clarifying questions. The student subjects were then given a quiz to ensure their understanding of the bidding and allocation rules. (A copy of the written instructions, sample computer screens, and the quiz are included in the appendix.)

Subjects were allowed to discuss strategies and outcomes with each other before, during, and after each auction. The layout of the computer lab, however, prevented each subject from seeing the screen of any other subject, and subjects were informed that this would be counter to the auction rules. Therefore, while communication was open, actual bidding behavior remained private knowledge. After the final auction in each session each subject's screen automatically reverted to a blank screen (to maintain the privacy of bidding behavior as subjects left the lab) and student subjects were paid individually in a side room. The exchange rate between Fr and \$US (the currency in which subjects were paid) was $\$US = 10 \text{ Fr}$. Payments to student subjects averaged \$20. (Regulations

precluded cash payments to most of the professional subjects, so we rewarded them with prizes bearing the logos of the researchers' sponsoring universities.)

The auctions were conducted with custom designed software. In addition to allowing the entry of bids, the software graphed individual demand curves in real time as each subject initiated the bid submission process. The aggregate demand schedule, stop-out price, and allocations for each round were calculated by the software at the completion of each auction. After each round each bidder was provided with information on the number of total units demanded at each price. In addition, the interface provided historical information pertaining to each subject's previously submitted demand functions matched with their allocations, profit, and percentage of available supply received for each completed auction. Each experimental session lasted approximately 45 minutes.

4. Experimental Results

We assess the experimental outcomes along the following dimensions: bidding strategies, clearing prices, seller's revenue, and the symmetry in the allocations.

4.1 Bidding Basics

Prior to comparing the actual bids to the equilibrium strategies, there are some basic aspects of bidding in the auction games, identified by the propositions above, that are interesting to examine. Proposition 2 notes that bidding in the Discriminatory auction for any quantity at a price of 20 is a weakly dominated strategy in a one-shot game. Given the simplicity of establishing that a bid at 20 is a dominated bid we expected to see little or no bidding in the 98 discriminatory auctions at the price of 20. Examination of the data shows that only in 3 of the 98 discriminatory auctions did any bidder submit

orders at a price of 20. It is also true that the bids all came from the same bidder and do not appear to be part of a punishment/retaliation strategy. Thus only 1 of the 35 bidders that participated in the Discriminatory auctions submitted a bid that was weakly dominated in this way. None of the 10 professionals who participated in Discriminatory auctions submitted bids at a price of 20.

The propositions also identify bidding for fewer than 26 units in each auction as a weakly dominated strategy. Examination of the data shows that this occurred in only 29 of the 280 (10.5%) auctions. Interestingly, this strategy occurred more often in the uniform-reducible auctions (where in 15.5% of the auctions bidders submitted demands for fewer than 26 units) than in the uniform-fixed and the discriminatory auctions (8.2% of these auctions). The exact reason for this difference is unclear but may be related to expectations of a supply reduction. The occurrence of this strategy tended to be isolated in the sense that in only one of the 29 auctions with aggregate demand less than 130 units did more than one bidder bid for less than 26 units. 21% of bidders played this weakly dominated strategy in 12 of the 20 sessions. 40% of the professionals played strategies that were weakly dominated in this way while less than 13% of the students did.

A final notable aspect of the bidding is the extent of collusion that occurred in the auctions across the different mechanisms. Collusion in the auctions could take on many forms and so it is difficult to completely examine this issue. However, one collusive scheme which we label “perfect collusion” is easily identifiable. If all 5 bidders submit demands for 26 units at a price of 17 in any auction we call this a perfectly collusive outcome. Regardless of the pricing rule, perfect collusion results in all units being allocated evenly across the 5 bidders at the lowest possible price. It is clearly collusive in

the sense that for any bidder, if all other bidders are expected to play these strategies, there exist easily identifiable strategies that will capture a much greater allocation with either an increase in price of one (necessary in the discriminatory auctions) or no increase in price (possible in uniform-price auctions).

Consistent with the arguments developed in Friedman (1960), the discriminatory auctions were much more susceptible to perfect collusion than were the uniform-price auctions. Of the 7 sessions of discriminatory auctions, 3 sessions saw the perfectly collusive outcome in all of the 14 auctions in which the bidders participated. In 2 of the other discriminatory sessions, the bidders converged to the perfectly collusive outcome in the final 4 or 5 auctions of the session, leaving only 2 discriminatory sessions that did not result in perfectly collusive outcomes for a significant proportion of the auctions.

In the 13 sessions using a uniform-price format only 4 sessions resulted in perfectly collusive outcomes for all 14 auctions. None of the other sessions converged to the perfectly collusive outcome. Interestingly, one session of the uniform-reducible auction resulted in the perfectly collusive outcome in the first auction. In the second auction of this session, however, one bidder defected, submitted a demand for all 26 units at a price of 18 breaking the coalition. In the remaining 12 auctions for this session the resulting stop-out price was either 19 or 20 (6 outcomes at each price).

4.2 Bidding Strategies

The complexity of the strategy space available to bidders in multi-unit auctions makes the comparison of the actual bid schedules submitted by the participants to the theoretical equilibrium demands somewhat difficult. Keloharju, Nyborg and Rydqvist (2002) use a methodology that compares the moments of the distribution of the individual

bids on a given bid schedule to the moments of the theoretical equilibrium schedules. We adopt their methodology to make comparisons between the actual individual demand schedules and each of the possible equilibria for a particular setting.

Before examining the actual demands we investigate whether the subjects actually submit demand schedules rather than a single price/quantity combination. Figure 1 shows that in many auctions (59% in the uniform-fixed auctions, 58% in the uniform-reducible auctions, and 36% in the discriminatory auctions) at least one bidder submitted multiple price/quantity combinations. This is consistent with the empirical finding in Nyborg, Bindseil and Strebulaev (2002) in their study of repo auctions. It is, however, very different from the theoretical predictions. In the coalition proof equilibria of the uniform-fixed auction, theory predicts that all subjects will submit multiple price/quantity pairs as bids. Figure 1 also shows that only 9% of uniform-fixed auctions saw all 5 subjects submit multiple price/quantity pairs as bids. In both the uniform-reducible and discriminatory mechanisms, theory predicts that all subjects will submit a single price-quantity combination as a bid. The discriminatory auctions come closest to this prediction; 64% of these auctions result in all bidders submitting flat demands.

The first moment of the demand curves we consider is the discount. The discount is measured as the difference between the secondary market price and the quantity weighted average price, \bar{p} , of a bidder's demand schedule. Let q_i denote the quantity on a given demand curve demanded at a price i , where $i \in \{17, 18, 19, 20\}$ and let

$$q_T = \sum_{i=17}^{20} q_i, \text{ then}$$

$$\bar{p} = \frac{1}{q_T} (20 \times q_{20} + 19 \times q_{19} + 18 \times q_{18} + 17 \times q_{17}).$$

In our case, the secondary market price is known with certainty and equal in all the experiments so the discount or the quantity weighted average price contain the same information. The standard deviation of a given demand curve is calculated as:

$$\sigma = \left[\frac{1}{q_T} (q_{20}(20 - \bar{p})^2 + q_{19}(19 - \bar{p})^2 + q_{18}(18 - \bar{p})^2 + q_{17}(17 - \bar{p})^2) \right]^{\frac{1}{2}}.$$

The skewness and kurtosis of a demand curve are calculated as:

$$s^3 = \left[\frac{1}{q_T \times \sigma^3} (q_{20}(20 - \bar{p})^3 + q_{19}(19 - \bar{p})^3 + q_{18}(18 - \bar{p})^3 + q_{17}(17 - \bar{p})^3) \right]$$

and

$$k^4 = \left[\frac{1}{q_T \times \sigma^4} (q_{20}(20 - \bar{p})^4 + q_{19}(19 - \bar{p})^4 + q_{18}(18 - \bar{p})^4 + q_{17}(17 - \bar{p})^4) \right].$$

Table 2-A compares the moments of the equilibrium individual demand curve to the average individual demand curve submitted in each type of auction. To examine the question of whether “in aggregate rather than individually” the subjects were playing equilibrium strategies, Table 2-B compares the moments of the equilibrium aggregate demand curves to the average aggregate demand curves submitted in each type of auction. With either method, the results indicate that the actual bidding strategies of the subjects differ significantly from the theoretical predictions for all three mechanisms.

Tables 2-A and 2-B, and Figure 2, illustrate that the demands submitted by the subjects differed from the equilibrium in particular ways. In the discriminatory auctions, bidders on average were submitting steeper bid schedules and lower bids (bids with a greater discount) than predicted by the theory. The steepness simply comes from the fact that the equilibrium demand is completely flat while the actual demands are not. The greater discount arises from collusion. The same differences occur in the uniform-

reducible auctions. The measures of the discount and dispersion of the actual demands are both significantly greater than the measures suggested by the theory. However, in the uniform-fixed auctions the submitted demands (see Figure 2) are significantly flatter and include a significantly smaller discount. Tables 2-A and 2-B show that the measures of discount and dispersion are significantly smaller than the measures implied by the theory. This indicates that bidders did not recognize the strategic advantage provided by the ability to submit demand curves in the multi-unit uniform-price auction, engaging instead in naïvely competitive behavior.⁵

Figure 2 suggests that in many cases the differences from theoretical equilibrium may have been driven by the “tail” of the individual demand curves, *i.e.*, that part of the individual’s demand curve (for cumulative quantities greater than 6) for which there is relatively little chance of an allocation. To investigate the conjecture that the bidders were in fact bidding for the “first 6 units” with equilibrium strategies, we repeated the moment calculations using only these first units demanded by each bidder. Table 2-C indicates that on average the aggregation of the individual demands submitted for the “first 6 units” are significantly different from the theoretical prediction for this curve.⁶

Compared to the uniform-fixed mechanism theory predicts that the use of discriminatory pricing or reducible supply will “raise” and “flatten” the individual demands. Figure 3 shows that, as predicted, reducible supply results in lower discounts and flatter demands than were submitted in the uniform-price auctions with fixed supply.

⁵ This result is consistent with the findings of GNR. The result does not change if we restrict attention to sessions of the uniform-fixed auction using professional participants.

⁶ As a further robustness check, we examined the average of the individual demands restricting attention to the first 6 units demanded and found similar results. We also eliminated from the sample those sessions for which all auctions resulted in the perfect collusion. Again, the same qualitative results were obtained.

However, the differences in the discounts and the standard deviations are not statistically significant. Discriminatory pricing also results in flatter demand curves;⁷ however, the discounts are greater rather than lower. The larger discount appears again to be the result of the greater incidence of perfect collusion in the discriminatory auctions.

4.3 Clearing Prices and Revenue

In this section we compare clearing prices and revenue across the three mechanisms. Mean clearing prices and revenue by session are reported in Table 1. Auction by auction results for each session are reported in Table 3. Panel A of Figure 5 examines how revenue changes with experience over the 14 auctions.

Across all auctions and all sessions, average revenue is highest under the uniform-reducible mechanism with average revenue of 481.1 and an average stop-out price of 18.5. The second highest revenue is realized under the uniform-fixed mechanism, with average revenue of 477.6 and an average stop-out price of 18.4. The lowest revenue obtains under the discriminatory pricing rule. Here revenue averages 462.4, the stop-out price averages 17.5 and the average price paid is 17.8 (recall that in the discriminatory auctions winning bidders pay their bids so the stop-out price is the lower bound for the average price paid). With the exception of a single auction under the uniform-reducible mechanism, all 26 units were sold in every auction. The revenue ranking from the auctions ($REV_{UR} > REV_{UF} > REV_D$) differs from the third theoretical prediction stated in Section 2 ($REV_{UR} > REV_D > REV_{UF}$).

Panel A of Figure 5 shows noticeable patterns in revenue as the subjects gain experience in a session. For each time series, the first point represents the average for all

⁷ The difference between the average standard deviations in the uniform-fixed and the discriminatory auctions is statistically significant ($p = .045$).

14 auctions under each mechanism, the second point is the average for auctions 2 through 14, and the third is the average for auctions 3 through 14, and so on. Under the discriminatory mechanism, revenue declines monotonically as later periods are compared with the global average. Three sessions maintain the perfectly collusive outcome for all 14 auctions and two additional sessions converge to this outcome. The remaining two sessions converge to the unique Nash equilibrium (a stop-out price of \$19 with symmetric allocations). Under the uniform-fixed mechanism, revenue is lower in the second half of the sessions. However, none of the sessions that start away from the collusive outcome converge to it with experience. Under the uniform-reducible pricing rule, revenue is almost constant with experience. Again, no session that starts away from the collusive outcome converges to it. Importantly, the revenue ranking based on global averages is sharpened when we compare later periods where subjects have gained experience with the mechanism and in interacting with other cohort members.

In order to assess the statistical significance of revenue differences across the three mechanisms, we face the challenge of simultaneously controlling for experience effects (which Figure 5 suggests are mechanism specific) and cohort effects.⁸ Since panel data methods that simultaneously control for both are extremely unreliable in small samples,⁹ we first perform analysis that controls for experience effects, and then perform analysis on the level of the session in order to control for cohort effects.

In order to test for revenue differences while controlling for experience effects, we first averaged the clearing price of all seven (six in the reducible mechanism) sessions

⁸ Cohort effects arise when results from an experimental session (a set of interactions with a single group of subjects) are affected by characteristics of the subjects themselves independently of the mechanism.

⁹ See, for example, Beck and Katz (1995).

for each of the three mechanisms according to their sequence (1-14) to get an average sequence of revenue for each mechanism. We then compare the first auction's revenue under each mechanism, the second auction's revenue, and so on. (Although this procedure perfectly controls for experience effects, it does not control for the potential lack of independence between auctions within a session and therefore biases downward standard errors.) We employ both the non-parametric approximate randomization test and a standard matched-pairs t-test, with all test statistics reported for two-tailed tests.

The average revenue sequence under the uniform-reducible pricing rule is higher than under the uniform-fixed mechanism, with the difference significant at the 10% level for both the randomization test and the t-test ($p=0.10$ and $p=0.10$ respectively). Average revenue under the discriminatory mechanism is significantly lower than either uniform-price mechanism ($p<0.01$) for both tests.

Table 3 indicates that revenue is higher in the sessions employing professionals as subjects. Significantly, when we disaggregate the data by subject type, revenue is lowest under the discriminatory mechanism for both types.

The most conservative data analysis strategy controls for cohort effects by treating the mean revenue from each session as a single data point. However, this approach does not control for differential rates of change in revenue across mechanisms as subjects become experienced. In order to control for within-session experience effects, we analyze the last 4 auctions from each session, since these are the auctions most likely to represent equilibrium outcomes (Figure 5 supports the choice of the last 4 auctions as the cutoff point). We calculate the average revenue over the last 4 auctions of each session and use each average as a data point in the following (OLS) regression:

$$\text{REVENUE} = b_1 + b_2\text{UF} + b_3\text{UR} + b_4\text{PROF} + e .$$

UF is an indicator variable that takes on a value of 1 in uniform-fixed sessions and 0 otherwise. UR is an equivalent indicator variable for uniform-reducible supply sessions. PROF is an indicator variable that takes on the value of 1 for sessions with professionals as subjects, and 0 otherwise. The indicator for the discriminatory mechanism is suppressed; the mean for the discriminatory sessions is captured by the intercept after controlling for PROF, and the estimated coefficients for UF and UR represent differences between these session means and the mean for the discriminatory sessions. We estimate the model with all 20 sessions and with the 12 sessions where fewer than 75% of the auctions result in the perfectly collusive outcome. This is a robustness test since group dynamics and cohort effects may play a role in achieving perfect collusion - independent of the role of the mechanism. Results are reported in Table 4.

The revenue differences between the uniform-fixed and uniform-reducible mechanisms and between the uniform-fixed and discriminatory-price mechanism are not significant under either data grouping. Revenue under the uniform-reducible mechanism exceeds that under the discriminatory mechanism for both data groupings with the differences significant at the 10% level in two-tailed tests. The coefficient on the indicator for professionals is positive and significant at the 1% and 10% level respectively for the two data groupings, indicating higher revenue in these sessions. Importantly, for both subject types, the revenue in the discriminatory auctions is lower than the average revenue from the two uniform-price auctions over the last four auctions.

In sum, the weight of the evidence suggests a significant revenue difference between the discriminatory and uniform-reducible mechanisms, weak evidence of a difference between the discriminatory and uniform-fixed mechanisms, and little evidence

for a difference between the uniform-price mechanisms. What causes the higher revenue under the uniform-price mechanisms? The revenue difference between the discriminatory and uniform-price mechanisms is not caused by a larger number of cohorts facing discriminatory auctions having experience with the collusive outcome (revenue equal to 442): a comparable number of sessions using uniform-pricing experience the collusive outcome at least once (5 of 7 under uniform-fixed, 4 of 6 under uniform-reducible, and 5 of 7 under discriminatory). Rather, the difference is caused by the greater propensity for revenue to converge to the collusive outcome under the discriminatory mechanism: weighting each session equally, once the collusive outcome has been achieved it is repeated in 86.7% of subsequent auctions. Under the uniform-fixed and uniform-reducible mechanisms, these percentages are 62.1% and 53.8% respectively. Excluding the sessions that resulted in perfect collusion for all the auctions, the difference is even greater with 66.7% of subsequent auctions collusive under the discriminatory rule, and only 16.7% and 7.7% under the uniform-fixed and uniform-reducible mechanisms, respectively.

4.4 Allocations

In addition to revenue maximization, Treasuries may have as a goal the wide dispersion and low concentration of the auction's allocations. (For example, the U.S. Treasury prohibits individual dealers from buying more than 35% of any auction.) This objective derives from a desire for a liquid secondary market.¹⁰

¹⁰ The effect of the concentration of allocations in the auction on the secondary market has been studied in the context of the 1991 Salomon Brothers squeeze (see, for example, Jegadeesh (1993)).

Figure 4 indicates that the most frequent allocation of units across bidders is the perfectly symmetric allocation of 5.2 units per bidder. There are, however, significant differences in the level of asymmetry of allocations across the mechanisms. While in the discriminatory auctions 69% of the allocations were for between 5 and 6 units, for both uniform-price mechanisms only 41% of allocations were for between 5 and 6 units.

We examine the symmetry of the allocations of units across the subjects using the Herfindahl – Hirschman (HH) index, which sums the squares of the percentage allocation to each bidder. If allocations are perfectly symmetric, the value of the index is 2000, while if a single bidder receives the entire allocation, the value is 10,000. On average, the symmetric allocation is expected as there is no *ex ante* reason to consider the bidders as asymmetric in any way. Table 5 reports that overall the discriminatory auctions result in the lowest average concentration, while the uniform-reducible auctions result in the highest concentrations.

Panel B of Figure 5 indicates that the most striking impact of experience on the HH index is in the discriminatory auctions where by auction 11, allocations are perfectly symmetric in 6 of the 7 sessions, and nearly so in the seventh. Asymmetry also decreases significantly in the uniform-reducible auctions, although over the last 4 auctions the symmetry index remains 59% higher than under the discriminatory sessions. There are no experience-induced patterns in symmetry of allocations under the uniform-fixed mechanism. Experience changes the relative asymmetry ranking of the three mechanisms relative to the global averages: the discriminatory pricing rule results in the most symmetric allocations at any level of experience, but the uniform-reducible mechanism converges to more symmetric allocations than the uniform-fixed mechanism.

We use the same data analysis strategy as in Section 4.3; *i.e.*, we first perfectly control for experience effects and then test for differences using session level data. We initially averaged the HH index of all seven (six in the reducible mechanism) sessions for each of the three mechanisms according to their sequence (1-14) to get an average sequence of the index for each mechanism. We then compare the first period's index level under each mechanism, and then the second period's, and so on.

The following asymmetry rankings hold with p-values for the non-parametric randomization test and t-test reported respectively: $HH_{UF} > HH_{UR}$ so allocations are more asymmetric in the uniform-fixed auctions than the uniform-reducible auctions, but the difference is only marginally significant ($p=0.13$ and $p=0.12$); $HH_{UF} > HH_D$ ($p=0.10$ and $p=0.10$); and $HH_{UR} > HH_D$ ($p < 0.01$ and $p < 0.01$).

We next analyze the data controlling for experience effects. Given the differential rates of change in experimental outcomes across mechanisms as subjects become experienced (Figure 5, Panel B), we again control for within-session experience effects by analyzing the last four auctions from each session. We calculate the average HH index level over the last four auctions of each session and then use each session mean as a single data point in the following (OLS) regression:

$$HH\text{-INDEX} = b_1 + b_2UF + b_3UR + b_4PROF + e .$$

Variable definitions are the same as in Section 4.3. We again estimate the model with all 20 sessions and as a robustness test, with the 12 sessions where fewer than 75% of the auctions result in the perfectly collusive outcome. Results are reported in Table 6.

Differences in allocation asymmetry between the uniform-fixed and uniform-reducible mechanisms are not significant for either sample. Allocation asymmetry under the uniform-fixed mechanism is greater than under the discriminatory mechanism for

both samples, with the difference significant at the 5% level and 1% levels, respectively, for a two-tailed test. The uniform-reducible mechanism also has more asymmetric allocations than the discriminatory-price mechanism in both samples with the differences being significant at the 10% level and 1% levels, respectively. The coefficient on the indicator for professionals is insignificant using both samples.

The strongest and most important revenue and asymmetry results are the significantly lower asymmetry and revenue under the discriminatory mechanism. Symmetric allocations seem to play an important role in achieving the collusive level of revenue across all three mechanisms: in 94% of the auctions where the collusive revenue outcome obtains the allocations are perfectly symmetric and this combination of revenue and allocation is more likely to occur under the discriminatory mechanism. Furthermore, under both uniform-price mechanisms, when the allocation is perfectly symmetric, the perfectly collusive outcome is always realized while this occurs in 89% of the discriminatory auctions (the exceptions are when the unique equilibrium obtains).

Auction-level results indicate that this relationship between perfectly symmetric allocations and the collusive level of revenue leads to a strong positive correlation between revenue and the HH index under all three mechanisms. When we divide the sample according to the different mechanisms, the highest correlation is found for the uniform-reducible auctions (0.53), followed by the uniform-fixed (0.40), and the discriminatory auctions (0.32). All the correlations are significant at the 1% level.

Since avoiding the collusive outcome with respect to revenue is of primary importance in auction design, we also consider the relationship between revenue and asymmetry when revenue exceeds the collusive level. We accomplish this by excluding

from the analysis the sessions in which the perfectly collusive outcome was attained in all auctions. This weakens the relationship significantly, with the obtained correlation coefficients insignificantly different from zero under all three mechanisms ($p=0.44$, $p=0.41$, and $p=0.53$ for UF, UR, and D respectively). Under all three mechanisms, the relationship becomes noisier in part because although the defection of a single bidder from a collusive agreement tends to both increase revenue and produce asymmetric allocations, there are many auctions in which several bidders simultaneously bid aggressively. The discriminatory auctions, in which the unique Nash equilibrium obtains, result in both high revenue and symmetric allocations. Thus, when perfect collusion is avoided, the relationship between revenue and symmetry is weak.

4.5 Variation in Revenue

A further concern for a seller in a repeated setting is variation in the revenue received across similar auctions. Indexing mechanism type with j and the specific session with i we define the ratio: Total average revenue _{j} / Var(average revenue _{ji}). We find the discriminatory auction has the highest ratio, 1.06, followed by the uniform-price with reducible supply with 0.49, and finally the uniform-price with fixed supply, 0.46.

These results are roughly in line with the theory. Only the uniform-fixed case supports multiple equilibria and so is predicted to have the highest ratio. And if the theoretical results are thought to hold “on average,” then for a given variation in revenue for the discriminatory and the uniform-reducible auctions, the uniform-reducible auction would be predicted to have a higher ratio due to its higher expected revenue. If the seller has a strong aversion to variation in revenue, this result provides an impetus for the use of a discriminatory auction despite evidence that it leads to lower average revenue.

4.6 Robustness

Our experimental design differs from GNR (1996) in two aspects. The first is the number of bidders. In our setting, five subjects bid in each round while in GNR (1996) the number of the bidders was more than twice that number. The second is the complexity of the coordination problem due to the size of the strategy space: GNR (1996) allowed the subjects to bid at three possible prices while we allowed bidding at four. Given our contrasting results, it is natural to ask what drives these differences. Recall that, contrary to the results presented here, GNR found the uniform-price auction to result in apparent collusion. As a consequence, the revenue comparison differs across the two studies. Is this difference due to the number of subjects or the size of the strategy space?

As a robustness check we tested whether a greater number of bidders participating in a uniform-price auction encouraged the coordination found by GNR. We accomplished this by running three additional sessions with student subjects under our uniform-fixed setting using 10 subjects and 51 units for sale. The results indicate that the greater number of bidders did not induce more collusion in the uniform-fixed auction. The average equilibrium price with 10 student bidders is 18.36 while the average equilibrium price with 5 student bidders is 17.77. As a result, our conjecture is that the size of the strategy space is a more likely cause of the differences between our results.

5. Conclusion

To examine multi-unit auction design we compare different auction formats in an experimental setting. Individual and aggregate bid functions are found to differ significantly from theoretical predictions. As a consequence of its greater susceptibility

to collusion, in our experiments the discriminatory auction led to the lowest average revenue. We find some evidence that a uniform-price auction with reducible supply can result in higher average revenue as compared with a uniform-price auction with a fixed supply, although the difference is not statistically significant. Allocations in the discriminatory auctions were the most symmetric; however, this seems to derive from its susceptibility to collusion. The uniform-price auction with fixed supply had the highest variation in revenue across auctions and the discriminatory auction had the lowest.

Our revenue results are consistent with the empirical results of Umlauf (1993) who examined the Mexican T-bill auctions and found that a uniform-price auction with reducible supply led to a higher average revenue than did a discriminatory auction. The results comparing revenue under the uniform-fixed versus the discriminatory auction contradict the GNR (1996) experimental findings but are consistent with empirical evidence in Feldman and Reinhart (1995). Feldman and Reinhart studied the international monetary fund's auction of gold from 1976 to 1980 and found that revenue in the uniform-price auctions was significantly larger. Tenorio (1993) studied Zambia's weekly auctions of foreign exchange from 1985 to 1987 and also concluded that uniform-price auctions yield greater revenue than discriminatory auctions.

The recent switch to a uniform-price mechanism by the U.S. Treasury is consistent with our result.¹¹ To the contrary, Belgium, France, Italy, Gambia, Mexico and Tanzania have all used a uniform-price format in the past and subsequently shifted to a discriminatory mechanism (Bartolini and Cottarelli (1997)). However, any of these decisions may have resulted from objectives other than revenue maximization.

¹¹ See the update of the Treasury Experience October 1998.

References

- Ausubel, L., and P. Cramton, 1996, "Demand Reduction and Inefficiency in Multi-Unit Auctions," University of Maryland working paper.
- Back, K., and J. F. Zender, 1993, "Auctions of Divisible Goods: On the Rationale for the Treasury Experiment," *Review of Financial Studies*, **6**, 733-764.
- Back, K and J. F. Zender, 2001, "Auctions of Divisible Goods with Endogenous Supply", *Economics Letters*, **73**, 29-34
- Beck, N. and J. N. Katz, 1995, "What to Do (And not to Do) with Time-Series Cross-Section Data," *American Political Science Review* **89**, 634-47.
- Bartolini, L. and C. Cottarelli, 1997, "Designing Effective Auctions for Treasury Securities", FEDERAL RESERVE BANK OF NEW YORK. *Current Issues in Economics and Finance*, **9**.
- Bernheim, D., B. Peleg, and M. Whinston, 1987, "Coalition-Proof Nash Equilibria: Concepts", *Journal of Economic Theory*, **42(1)**, 1-12.
- Cox, C. J., L. V. Smith, and M. J. Walker, 1985, "Expected Revenue in Discriminative and Uniform Price Sealed Bid Auction", Research in Experimental Economics a Research annual, Editor Smith L. Vernon, volume 3, JAI Press INC, 183-232.
- Feldman, R. A and V. R. Reinhart, 1995, "Flexible Estimation of Demand Schedules and Revenue under Different Auction Formats", IMF- Working Paper No. 95/116.
- Friedman, M., 1960, A Program for Monetary Stability, Fordham University Press, New York.
- Goswami, G., T. Noe, and M. Rebello, 1996, "Collusion in Uniform-Price Auctions: Experimental Evidence and Implications for Treasury Auctions," *Review of Financial Studies*, **9**, 757-785.
- Jegadeesh, N., 1993, "Treasury Auction Bids and the Salomon Squeeze" *Journal of Finance*; **48(4)**, 1403-19.
- Kagel, H. J., 1995, "Auctions: A Survey of Experimental Research", The Handbook of Experimental Economics edited by Kagel H. John and Roth E. Alvin, 501-585.
- Keloharju, M., K. Nyborg, and K. Rydqvist, 2002, "Strategic Behavior and Underpricing in Uniform-Price Auctions: Evidence from Finnish Treasury Auctions," working paper.
- Klemperer, P., 2002, "What Really Matters in Auction Design," *Journal of Economic Perspectives*, **16(1)**, 169-189.

McAdams, D., 2000, “‘Collusive-Seeming Equilibria’ in the Uniform-Price Auction,” Stanford University working paper.

Miller, J. G. and R. C. Plott, 1985, "Revenue Generating Properties of Sealed-Bid Auctions; An Experiment Analysis of One-Price and Discriminative Process", *Research in Experimental Economics a Research annual*, Editor Smith, Vernon L., volume 3, JAI Press INC, 159-182.

Nyborg, K., U. Bindseil and I. Strebulaev, 2002, “Bidding and Performance in Repo Auctions - Evidence from ECB Open Market Operations” working paper

Smith, L. V., 1967, "Experimental Studies of Discrimination Versus Competition in Sealed-Bid Auction Markets, *Journal of Business*, **40**, 56-84.

Umlauf, S., 1993, “An Empirical Study of the Mexican Treasury Bill Auction,” *Journal of Financial Economics*, **33**, 313-340.

Wang, J. J. D., and J. F. Zender, 2002, “Auctioning Divisible Goods,” *Economic Theory*, **19**, 673-705.

Wilson, R., 1979, “Auctions of Shares,” *Quarterly Journal of Economics*, **93**, 675-698.

Table 1**Experimental Sessions and Summary Statistics**

The table lists the experimental sessions conducted according to the date, mechanism, and the subject types (students or professionals) and reports average prices and revenues. Bidding is permitted at four prices (20, 19, 18, 17) and it is common knowledge that the resale value at the end of each auction is 20.

Date	Mechanism	Subjects	Mean Stop-out Price	Mean Price	Mean Revenue
02-26	Uniform-Price Fixed Supply	Students	17.5	17.5	455
04-03	Uniform-Price Fixed Supply	Students	18.5	18.5	481
04-10	Uniform-Price Fixed Supply	Students	17.0	17.0	442
10-21	Uniform-Price Fixed Supply	Students	18.9	18.9	490.3
10-24	Uniform-Price Fixed Supply	Students	17.0	17.0	442
07-15	Uniform-Price Fixed Supply	Professionals	19.8	19.8	514.4
09-10	Uniform-Price Fixed Supply	Professionals	19.9	19.9	518.1
		Mean	18.4	18.4	477.6
04-12	Uniform-Price Reducible Supply	Students	19.2	19.2	499.6
04-16	Uniform-Price Reducible Supply	Students	18.7	18.7	486.6
04-17	Uniform-Price Reducible Supply	Students	17.0	17.0	442
10-22	Uniform-Price Reducible Supply	Students	17.0	17.0	442
07-15	Uniform-Price Reducible Supply	Professionals	19.5	19.5	506
10-15	Uniform-Price Reducible Supply	Professionals	19.6	19.6	510.7
		Mean	18.5	18.5	481.1
04-26	Discriminatory-Price Fixed Supply	Students	17.0	17.0	442
06-10	Discriminatory-Price Fixed Supply	Students	17.7	18.1	469.4
07-17	Discriminatory-Price Fixed Supply	Students	17.1	17.9	465.3
10-23	Discriminatory-Price Fixed Supply	Students	18.6	18.8	489.3
10-25	Discriminatory-Price Fixed Supply	Students	17.0	17.0	442
07-15	Discriminatory-Price Fixed Supply	Professionals	18.3	18.7	486.6
09-18	Discriminatory-Price Fixed Supply	Professionals	17.0	17.0	442
		Mean	17.5	17.8	462.4

Table 2**Comparison of the Moments of Actual to Theoretical Bidding**

Discount is measured as the difference between the secondary market price and the quantity weighted average price of a bidder's demand schedule. Standard deviation, skewness, and kurtosis are calculated according to the equations given in section 4.2. ** Significant at 5% level (* significant at 10% level) using a two tailed t-test where the average of each session is an observation, N=7 for uniform-fixed and discriminatory and N=6 for uniform-reducible.

2-A – Individual's Demand Curves

Fixed Supply, Uniform-Price

Moments	Theory ¹²	Actual
Discount	2.423	2.158
Standard Deviation	1.18	0.24**
Skewness	1.56	-0.12**
Kurtosis	3.44	2.44

Reducible Supply, Uniform-Price

Moments	Theory	Actual
Discount	0	1.837**
Standard Deviation	0	0.19**
Skewness	0	0.03
Kurtosis	1	1.82**

Discriminatory

Moments	Theory	Actual
Discount	1	2.435**
Standard Deviation	0	0.086**
Skewness	0	0.03
Kurtosis	1	1.38*

¹² In the table we present predictions of the equilibrium with 5 units demanded by each bidder at price 20 and 21 units 17. For the equilibrium where each bidder demands 4 units at the price of 20, one unit at 19 and 21 units at 17 the predictions are: Standard Deviation = 1.12 Skewness = 1.64 and Kurtosis = 3.78. For the equilibrium with 3 units demanded at 20, 2 units demanded 19, and 21 units demanded 17 the theoretical predictions are: STD = 1.05, Skewness = 1.71 and Kurtosis = 4.12.

2-B – Aggregate Demand Curves

Fixed Supply, Uniform-Price

Moments	Theory ¹³	Actual
Discount	2.423	2.012
Standard Deviation	1.18	0.44**
Skewness	1.56	0.22**
Kurtosis	3.44	2.35*

Reducible Supply, Uniform-Price

Moments	Theory	Actual
Discount	0	1.851**
Standard Deviation	0	0.42**
Skewness	0	0.27
Kurtosis	1	5.72*

Discriminatory

Moments	Theory	Actual
Discount	1	2.44**
Standard Deviation	0	0.21**
Skewness	0	-0.09
Kurtosis	1	4.06

¹³ In the table we present the theoretical results of the equilibrium with 25 units demanded at price 20 and 105 units demanded at price 17. For completeness, the theory predictions for the equilibrium: 15 units demanded at 20, 10 units demanded at 19, 0 demanded at 18 and 105 demanded at 17 are as follows: Std. Dev. = 1.0470, Skewness = 1.7091 and Kurtosis = 4.1169. For the equilibrium: 20 units demanded at 20, 5 units demanded at 19, 0 demanded at 18 and 105 demanded at 17 the theoretical predictions are as follows: Std. Dev. = 1.1174, Skewness = 1.6402 and Kurtosis = 3.7789.

2-C – Aggregate Demand Curves- 6 Units

Fixed Supply, Uniform-Price

Moments	Theory¹⁴	Actual
Discount	0.5	2.353**
Standard Deviation	1.12	0.44**
Skewness	-1.79	-0.17**
Kurtosis	4.2	1.99**

Reducible Supply, Uniform-Price

Moments	Theory	Actual
Discount	0	1.923**
Standard Deviation	0	0.28*
Skewness	0	0.34
Kurtosis	1	2.40**

Discriminatory

Moments	Theory	Actual
Discount	1	1.676**
Standard Deviation	0	0.14*
Skewness	0	-0.01
Kurtosis	1	2.66**

¹⁴ In the table we present the theoretical results of the equilibrium with 25 units demanded at price 20 and 5 units demanded at price 17. For completeness, the theory predictions for the equilibrium: 15 units demanded at 20, 10 units demanded at 19, 0 demanded at 18 and 5 demanded at 17 are as follows: Std. Dev. = 0.927, Skewness = -1.19 and Kurtosis = 3.75. For the equilibrium: 20 units demanded at 20, 5 units demanded at 19, 0 demanded at 18 and 105 demanded at 17 the theoretical predictions are as follows: Std. Dev. = 1.11, Skewness = -1.43 and Kurtosis = 3.40.

Table 3
Evolution of Revenue

This table reports the evolution of revenue within experimental sessions and the standard deviation of revenue for each session. Under the uniform-price mechanism with fixed supply the unique symmetric Pareto-dominant coalition-proof equilibria implies auctioneer's revenue of 442. Under the uniform-price mechanism with reducible supply, there is a unique equilibrium in which the competitive outcome obtains (revenue equal to 520). Under the discriminatory mechanism there is a unique equilibrium in undominated strategies in which auctioneer's revenue equals 494.

Panel A: Fixed Supply, Uniform-Price

Date	Subject Type	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Mean	Std Dev
02-26	Students	442	442	442	494	442	520	494	442	442	442	442	442	442	442	455	26.5
04-10	Students	494	494	494	494	494	494	494	468	468	520	442	442	468	468	481	22.2
04-3	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
10-21	Students	442	468	494	520	520	494	494	494	520	494	494	468	494	468	490.3	22.5
10-24	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
07-15	Professionals	520	520	520	494	520	520	520	520	494	494	520	520	520	520	514.4	11.1
10-09	Professionals	520	520	520	520	520	520	520	520	520	520	520	494	520	520	518.1	6.9
Mean		472	475	479	487	483	490	487	475	475	479	472	464	475	472	477.6	7.2
Std Dev		38.1	35.9	36.3	32.6	39.3	35.0	32.6	35.9	35.9	36.3	38.1	31.6	35.9	35.0	35.6	

Panel B: Reducible Supply, Uniform-Price

04-12	Students	442	468	520	520	520	494	520	494	494	494	520	520	494	494	499.6	23.2
04-16	Students	442	442	442	494	494	494	520	494	494	494	494	520	494	494	486.6	25.9
04-17	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
10-25	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
07-15	Professionals	520	520	520	480	494	494	494	520	520	520	520	494	494	494	506	15.0
10-15	Professionals	520	520	520	520	520	520	520	494	494	494	494	494	520	520	510.7	12.9
Mean		468	472	481	483	485	481	490	481	481	481	485	485	481	481	481.1	5.4
Std Dev		40.3	38.3	42.7	35.3	35.5	31.8	38.3	31.8	31.8	31.8	35.5	35.5	31.8	31.8	35.2	

Panel C: Discriminatory

04-26	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
06-10	Students	494	494	494	494	494	494	488	442	442	468	442	442	442	442	469.4	25.5
07-17	Students	468	494	494	442	474	486	458	494	494	442	442	442	442	442	465.3	23.4
10-23	Students	469	469	478	494	494	494	494	494	494	494	494	494	494	494	489.3	9.6
10-25	Students	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
07-15	Professionals	446	473	494	494	444	494	499	494	494	499	494	494	499	494	486.6	18.7
09-18	Professionals	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	0.0
Mean		458	465	469	464	462	471	466	464	464	461	457	457	458	457	462.4	4.6
Std Dev		20.1	23.6	26.3	27.8	24.9	26.9	26.3	27.8	27.8	25.9	25.4	25.4	26.6	25.4	25.7	

Table 4
Auctioneer's Revenue by Mechanism

We estimate the following model (OLS) in order to examine mechanism dependent differences in auctioneer's revenue:

$$\text{REVENUE} = b_1 + b_2\text{UF} + b_3\text{UR} + b_4\text{PROF} + e$$

In order to control for within-session experience effects, we analyze the last four auctions from each session. These are the auctions most likely to represent equilibrium outcomes (see Figure 5). We calculate the average revenue over the last four auctions and then use each session mean as a single data point. UF is an indicator variable that takes on the value of 1 in uniform-price fixed supply sessions and 0 otherwise. UR is an equivalent indicator variable for uniform-price fixed supply sessions. PROF is an indicator variable that takes on the value of 1 for sessions with fixed-income professionals as subjects, and 0 otherwise. The indicator for the discriminatory-price mechanism is suppressed. Therefore the mean for the discriminatory-price sessions is captured by the intercept after controlling for PROF, and the estimated coefficients for UF and UR represent differences between these session means and the mean for the discriminatory-price sessions. We estimate the model with all sessions, and with sessions where fewer than 75% of the auctions result in the perfectly collusive outcome. This is a robustness test since group dynamics and cohort effects may play a role in achieving perfect collusion - independent of the role of the mechanism.

	\hat{b}_1	\hat{b}_2	\hat{b}_3	\hat{b}_4	Adj R ²	Sessions/Auctions
		UF	UR	PROF		
All Sessions	446.38 (43.58) p<0.01	13.75 (1.01) p=0.33	24.36 (1.72) p=0.10	37.29 (3.00) p=0.01	0.44	20 / 80
Competitive Sessions	461.43 (42.46) p<0.01	17.18 (1.14) p=0.29	28.56 (1.90) p=0.09	27.52 (2.19) p=0.06	0.42	12 / 48

Table 5**Herfindahl - Hirschman Index for Allocation of Units**

The table reports the Herfindahl - Hirschman index for each of the 14 auctions in each experimental session. The index is calculated by squaring the percentage allocation of each bidder and then summing the squared allocations. If allocations are perfectly symmetric, the value of the index is 2000 while if a single bidder receives the entire allocation the value is 10,000. The unique equilibrium for both the uniform-price reducible supply and discriminatory mechanisms implies perfectly symmetric allocations and hence an index value of 2000. Under the uniform-price fixed supply mechanism there are many equilibria with both symmetric and asymmetric allocations.

Panel A: Uniform-Price Fixed Supply

Session	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Mean	Std Dev
02-26	2000	2000	2500	10000	8038	3769	3817	2000	2000	2000	2000	2000	2000	2000	3295	2537
04-10	2667	3285	4003	4385	3902	3500	2840	6893	5594	5396	2546	2613	5735	6037	4243	1448
04-3	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
10-21	3395	2923	6110	3169	4549	3050	2548	3487	3469	3734	3750	10000	4181	6302	4333	1970
10-24	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
07-15	4941	4463	7619	7313	3965	3930	3859	4050	6674	3008	3410	4054	3887	3501	4620	1483
10-09	2732	2990	2966	3899	2814	3005	3126	3206	3143	2814	3158	6541	2790	2690	3277	987
Mean	2819	2809	3885	4681	3895	3036	2884	3377	3554	2993	2695	4173	3228	3504	3395	590
Std Dev	1071	910	2190	2960	2080	785	770	1758	1885	1246	743	3060	1434	1901	1081	

Panel B: Uniform-Price Reducible Supply

04-12	2000	10000	7686	10000	7290	2003	8671	2027	5000	3553	4692	4491	2167	2119	5121	3055
04-16	3575	6246	6226	3640	7290	2962	5495	2003	3744	2880	5355	2990	4275	4113	4342	1546
04-17	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
10-25	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
07-15	4077	5022	9482	8521	4017	2497	4207	4070	5597	4068	4063	3228	4270	4469	4828	1916
10-15	4132	4813	5081	4687	5339	6101	5850	6253	2820	4065	3973	4050	3775	2951	4564	1079
Mean	2964	5014	5413	5141	4656	2926	4704	3086	3527	3094	3680	3127	3081	2942	3811	984
Std Dev	1074	2986	3026	3383	2402	1602	2551	1769	1527	953	1393	1028	1140	1110	1853	

Panel C: Discriminatory

04-26	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
06-10	3798	2550	2249	2448	2017	2010	6914	2000	2000	10000	2000	2000	2000	2000	3142	2381
07-17	6745	10000	5027	2000	4518	3724	4518	5000	2926	2000	2000	2000	2000	2000	3890	2340
10-23	9257	9257	10000	2523	2238	2162	2373	2000	2000	2000	2000	2000	2000	2000	3701	3154
10-25	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
07-15	2124	3619	6197	2473	2031	7290	2193	2422	2067	2225	2151	2067	2120	2017	2928	1681
09-18	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	0
Mean	3989	4489	4210	2206	2400	3027	3143	2489	2142	3175	2022	2010	2017	2002	2809	881
Std Dev	2908	3564	3072	258	938	1984	1894	1118	347	3011	57	25	45	6	822	

Table 6
Allocation Symmetry by Mechanism

We estimate the following model (OLS) in order to examine mechanism-dependent differences in the symmetry of allocations:

$$HH = b_1 + b_2UF + b_3UR + b_4PROF + e$$

Our measure of symmetry is the Herfindahl - Hirschman index (HH). The index is calculated by squaring the percentage allocation of each bidder and then summing the squared allocations. We multiply this sum by 10,000 to remove decimals. If allocations are perfectly symmetric, the value of the index is 2000 while if a single bidder receives the entire allocation the value is 10,000. In order to control for within-session experience effects, we analyze the last four auctions from each session. These are the auctions most likely to represent equilibrium outcomes (see Figure 5). We calculate the average level of HH over the last four auctions in each session and then use each session mean as a single data point. UF is an indicator variable that takes on the value of 1 in uniform-price fixed supply sessions and 0 otherwise. UR is an equivalent indicator variable for uniform-price fixed supply sessions. PROF is an indicator variable that takes on the value of 1 for sessions with fixed-income professionals as subjects, and 0 otherwise. The indicator for the discriminatory-price mechanism is suppressed. Therefore the mean for the discriminatory-price sessions is captured by the intercept after controlling for PROF, and the estimated coefficients for UF and UR represent differences between these session means and the mean for the discriminatory-price sessions. We estimate the model with all sessions, and with sessions where fewer than 75% of the auctions result in the perfectly collusive outcome. This is a robustness test since group dynamics and cohort effects may play a role in achieving perfect collusion - independent of the role of the mechanism.

	\hat{b}_1	\hat{b}_2	\hat{b}_3	\hat{b}_4	Adj R ²	Sessions/Auctions
		UF	UR	PROF		
All Sessions	1873 (4.42) p<0.01	1387 (2.47) p=0.03	1172 (2.00) p=0.06	489 (0.95) p=0.35	0.21	20 / 80
Competitive Sessions	2136 (6.25) p<0.01	2541 (5.37) p<0.01	1903 (4.02) p<0.01	-455 (-1.16) p=0.28	0.72	12 / 48

Figure 1

Average Number of Submitted Price-Quantity Combinations

This figure shows the percentage of auctions under each mechanism in which a given number of subjects submitted more than one price quantity combination.

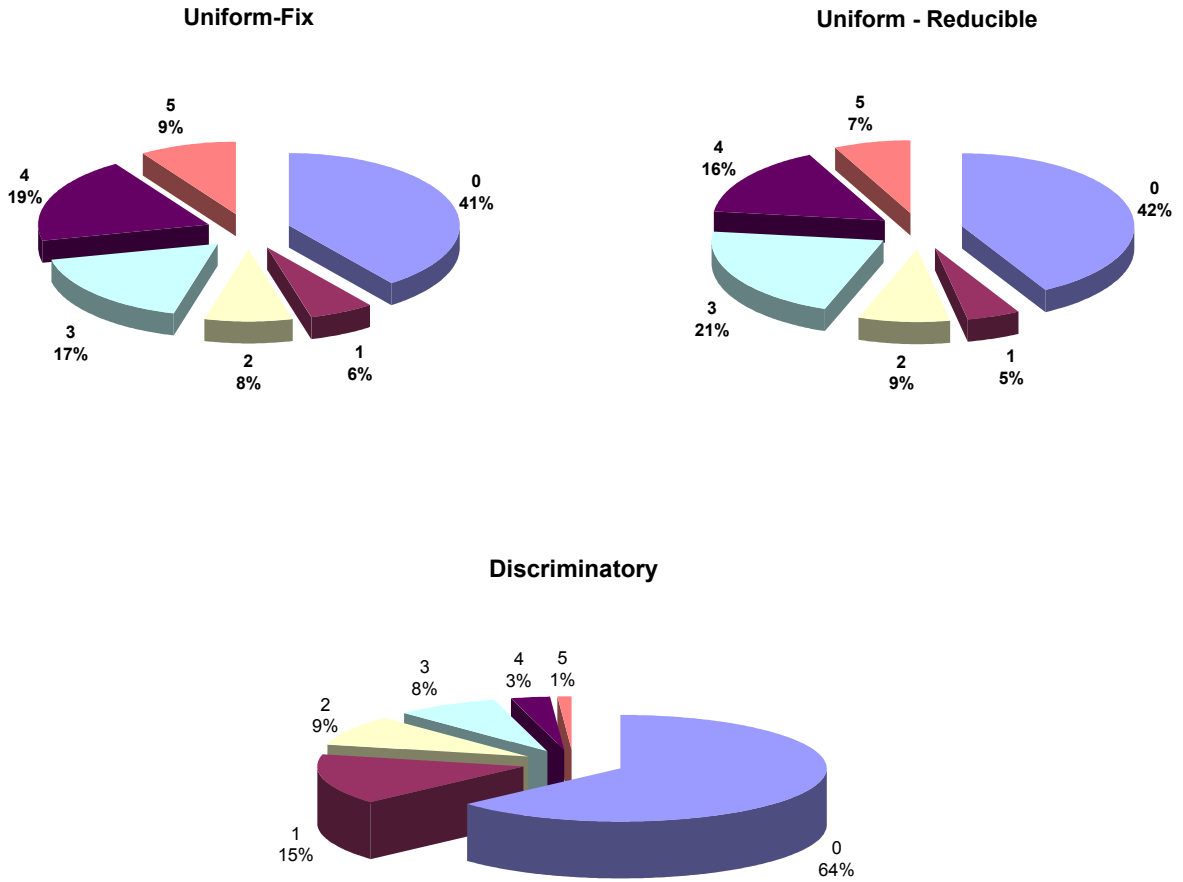


Figure 2

Theoretical equilibrium demand curves and the actual average aggregate demands for each mechanism.

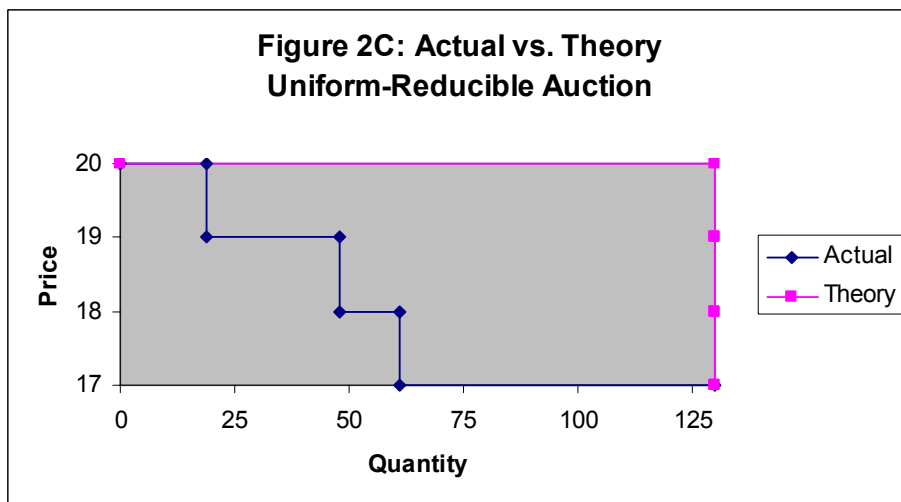
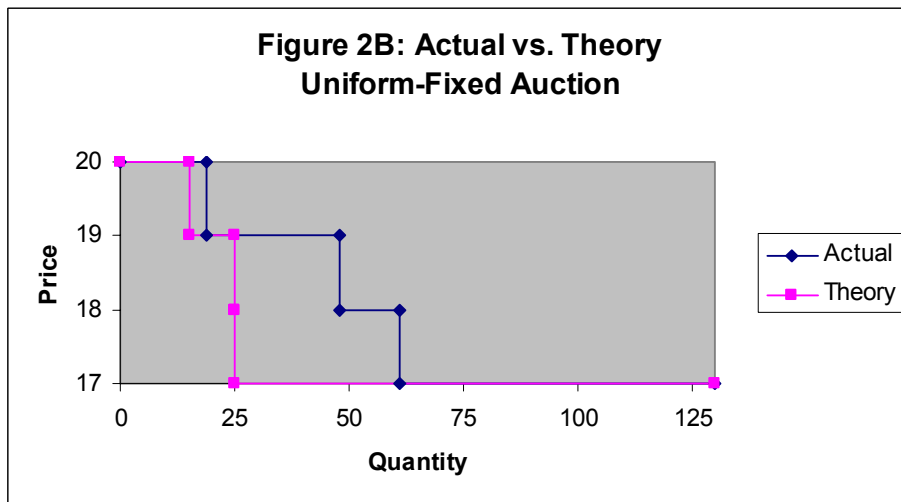
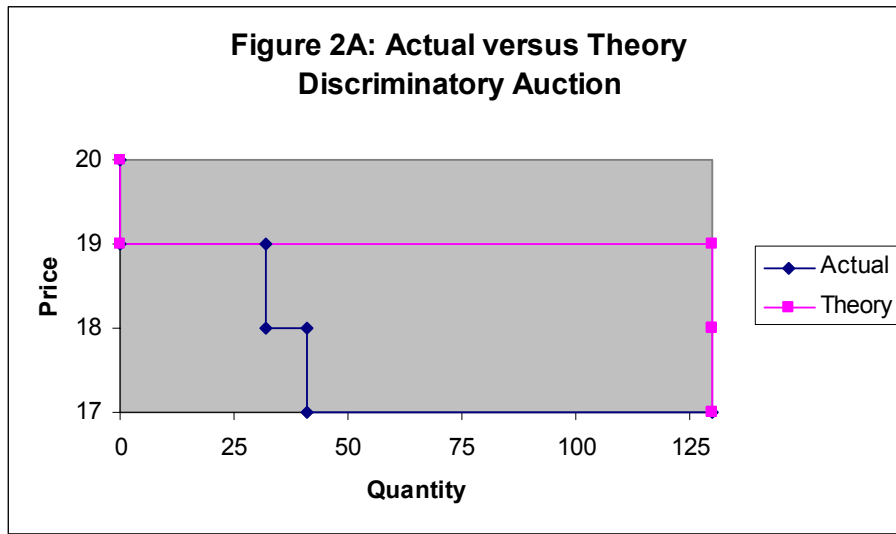
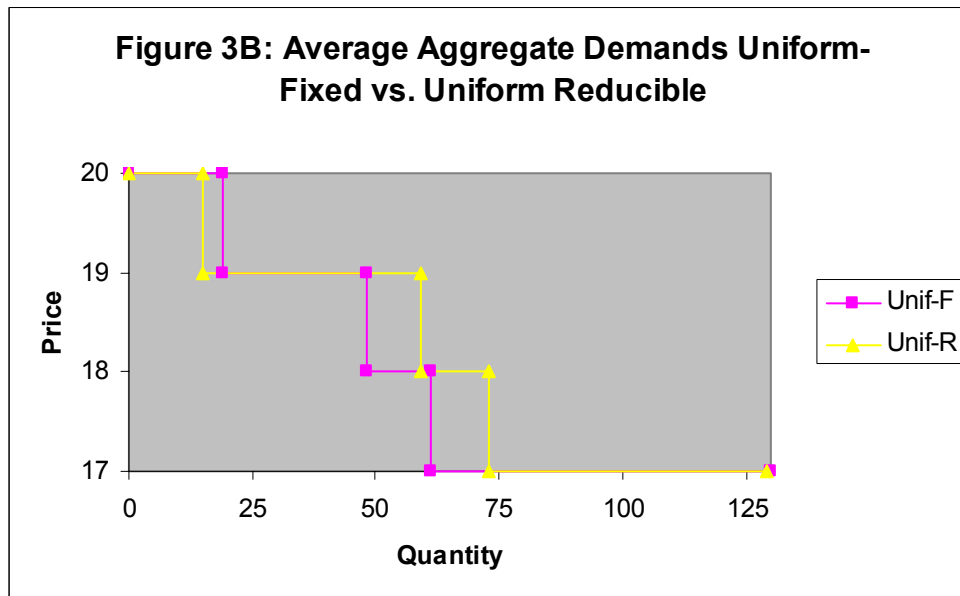
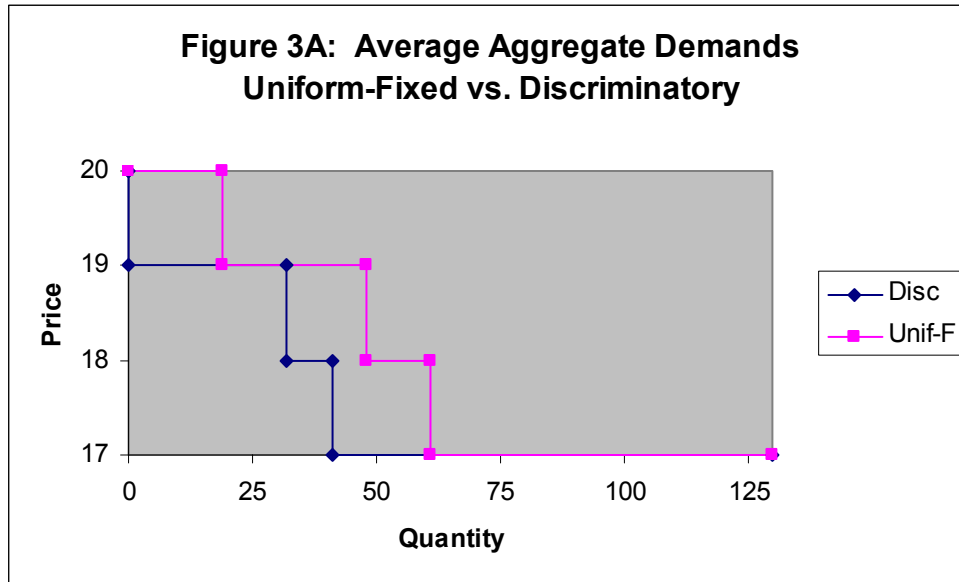


Figure 3

Actual average aggregate demand curves across mechanisms.



Mean Aggregate Inverse Demand

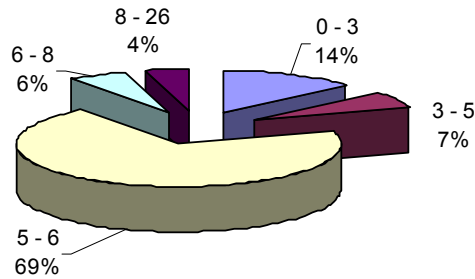
Prices	Discriminatory	Uniform-Fix	Uniform-Reducible
20	0.15	9.97	15.08
19	32.02	30.95	59.32
18	39.85	43.55	72.83
17	129.54	129.58	128.65

Figure 4

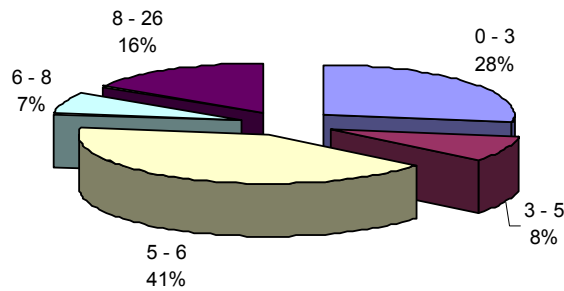
The Distribution of Allocations

This figure shows how the symmetry of the allocation of units to subjects differs across mechanisms by depicting the frequency with which allocations to a bidder in an auction occurred in the depicted intervals. Symmetric equilibria imply allocations of 5.2 units per subject.

Discriminatory



Uniform-Fixed



Uniform-Reducible

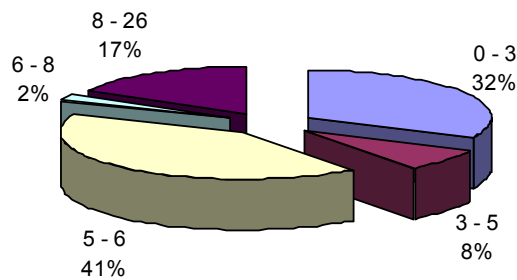
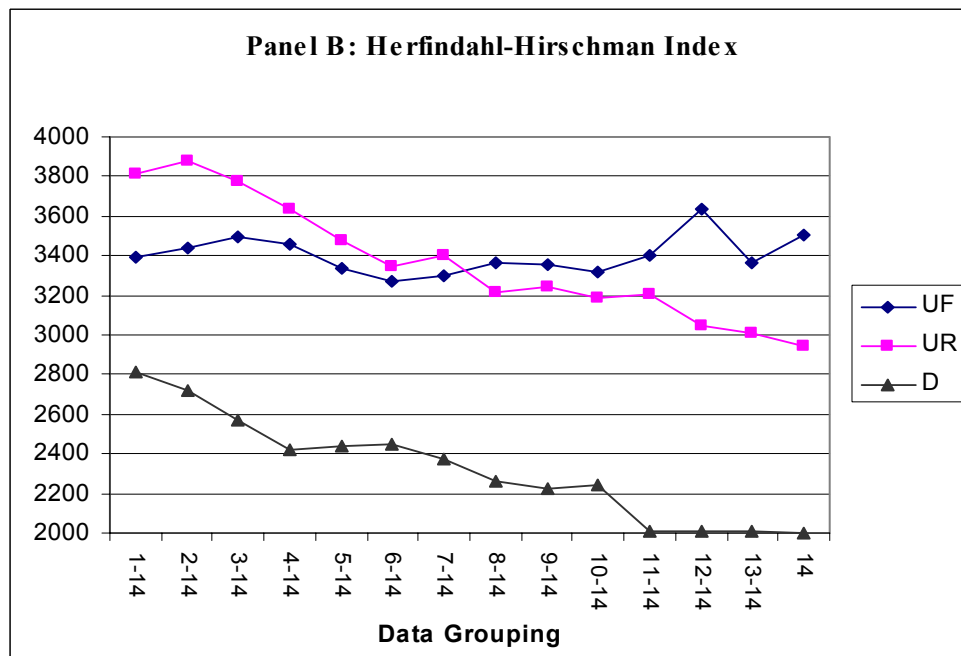
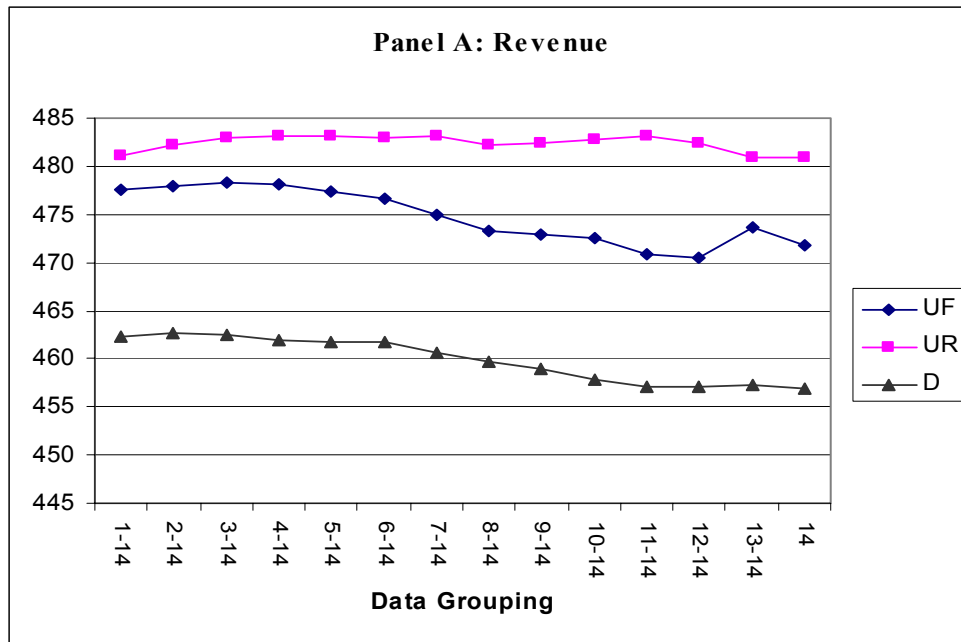


Figure 5
Experience Effects

The following panels show the influence of experience on auctioneer's revenue and the symmetry of allocations (Herfindahl-Hirschman Index) by comparing results from later auctions with global averages. The first data grouping is the global average for all 14 auctions under each mechanism, the second data grouping is the average for auctions 2 through 14, the third is the average for auctions 3 through 14 and so on.. Under the Discriminatory-price mechanism (D), auctioneer's revenue declines monotonically as bidders gain experience and the allocations converge to the perfectly symmetric by auction 11. Under the uniform-fixed mechanism (UF), there is no significant change in symmetry while auctioneer's revenue trends downward. Under the uniform-reducible mechanism (UR), the reverse is true: symmetry increases significantly while there is no trend in revenue



Appendix - Instructions

Auction-2 (UF-R)

This is an experiment in economic decision-making. The experiment consists of several rounds. At the end of each round your payoff for that round will be calculated. At the end of the experiment, your payoff from each round will be added up and this sum will determine your payoff for the experiment. Your payoff will be made with funds provided through grants by various institutions. Please feel free to earn as much of this money as possible. Everything contained in these instructions and everything you hear in this session is an accurate representation of this experiment. Be sure to ask any questions that you may have during this instruction period, and ask for assistance, if needed, at any time. All subjects receive the same instructions.

There are four parts in today's experiment:

1. These instructions
2. The trading game consisting of a random number of auctions
3. A questionnaire
4. The (private) payment of earnings

THE TRADING GAME OVERVIEW

In this experiment you will be required to bid for units of a good which we will call widgets. There will be 26 widgets available to all players. The resale value of each widget at the end of the auction is Fr. 20. You will be submitting a schedule of bids. This schedule indicates the number of widgets you are willing to buy at a given price level. The possible price levels will be Fr. 17, Fr. 18, Fr. 19, and Fr. 20. Once all schedules have been submitted, the computer will assign widgets to players submitting the highest bids until up to the available supply of 26 widgets is exhausted (if it increases the revenue from selling widgets, the computer may automatically sell fewer than 26 widgets). All the players will pay the same price (clearing price) for each widget he/she is allocated. At the end of each auction your cash balance will increase by 20 francs for each widget you hold, so you will earn profits on each widget you purchase at a clearing price less than 20 francs. There will be multiple auctions. The exact number will be randomly chosen. At the end of the experiment your balance in francs will be converted to cash

(1 franc = \$0.10), and you will be paid that amount in cash. Only you and the assistant that pays you will learn your earnings from today's session.

DETAILS

There will be **26** widgets available for sale. Your resale value for each widget is **20 francs**. (This means that after the auction your balance will increase by 20 francs for each widget that you hold, less what you paid for each widget). Prior to each auction, you will be required to submit via computer a schedule of bids. This schedule indicates the number of widgets you are willing to buy (including zero) at each possible price level. The possible price levels will be Fr. 17, Fr. 18, Fr. 19, and Fr. 20 and the sum of all of your bids may not exceed 26 units. Once each participant has submitted his/her schedule of bids, the computer will calculate the highest price at which all 26 widgets can be sold and will allocate widgets to players that submit bids that are equal to or higher than this price. The computer will also calculate the revenue generated if the number of widgets actually sold is less than 26 and it will choose to sell the quantity (less than or equal to 26) that maximizes the revenue. **The price paid for each widget will be equal to the clearing price. The market-clearing price will be the highest price at which the total demand for widgets summed across all bidders is equal to 26 (or the highest price at which a smaller quantity of widgets chosen by the computer can be sold).**

There will be several rounds of bidding. Only you will know your actual bids, allocations, and payoffs in each round, however all the participants will know the eventual clearing price of each round. You have the option to change your bids from one auction to another. The computer will end the experiment after some random number of rounds of bidding. Only the computer knows this number of rounds.

The Calculation of Your Payoffs

Your payoffs from each auction will be equal to the difference between your resale value for each widget (Fr.20) and the clearing price times the number of widgets you are allocated. At the end of each round your payoffs will be calculated. At the end of each experiment, the payoffs of each round will be added up. The sum of your round by round payoffs will determine your payoff from the experiment.

After the experiment is ended, your cumulative dollar payoff will be determined using the following formula: $\$ \text{ Payoffs} = \text{Balance in Francs} * 0.10$

Each participant will learn only his/her own final cash payment.

COMMUNICATION RULES

Before and after each round you may discuss strategies with the other players for about 1 minute. However you are required to remain seated behind your computer screen at all times. You are explicitly **not allowed to**:

- 1) Make physical threats of any kind or verbally abuse other players
- 2) Agree to share profits after the experiment
- 3) Look at the computer screen of any other player
- 4) Ask other participants how much they have earned when the experiment has ended.

The following examples are for illustrative purposes only. They are not intended to be suggested as “best” strategies and simply demonstrate the implications of a possible set of actions.

Example 1

Consider a game with 5 bidders: A, B, C, D and E. Suppose they submit the following schedules:

	Bidders					Demand	Cumulative Demand	Supply
PRICE	A	B	C	D	E			
20	11	0	5	0	0	16	16	26
19	5	0	3	2	0	10	26	26
18	5	0	8	6	18	37	63	26
17	5	26	10	18	8	67	130	26

The demand at each price is the sum of the demands of bidders A, B, C, D, and E. For example the demand at price 20 is equal to $11+0+5+0+0=16$. The cumulative demand is equal to the total demand at that price and all higher prices. For example the cumulative demand at the price of 19

is 16 (Demand at 20) + 10 (Demand at 19) = 26 . The market-clearing price is the highest price at which the cumulative demand equals the supply. In this case, the cumulative demand equals the supply at price equal 19 .

The allocation and profit of the players is as follows:

PRICE	A	B	C	D	E
Allocation	16	0	8	2	0
Profit	$16*(20-19)=16$	0	$8*(20-19)=8$	$2*(20-19)=2$	0

Since the value of a widget for each player is 20 , each player makes a profit for each unit that he/she bought at a price below 20 . Since in this example the clearing price is 19 , each participant makes a profit of 1 Fr. times the number of units he/she is allocated.

Note: At the end of each round, you will learn the total demand at each price and your own payoff, but you will not learn the bids or payoffs of any other participant.

EXAMPLE 2

The following example illustrates a case where cumulative demand does not exactly equal supply at any price, and shows how the widgets are allocated if this occurs.

PRICE	Bidders					Demand	Cumulative Demand	Supply
	A	B	C	D	E			
20	11	0	5	0	0	16	16	26
19	5	0	3	2	8	18	34	26
18	5	0	8	6	10	29	63	26
17	5	26	10	18	8	67	130	26

In this case, the market-clearing price is 19 . Each player will be allocated his/her demand at price 20 and *some* of his/her demand at price = 19 . Each player's allocation at 19 will depend on how large his/her bid was at that price: the larger the bid the larger the allocation as follows. Player A

bids for 5 units at a price of 19. Since these 5 units represent 5/18 or 27.7% of demand at price=19, this player receives 27.7% of the number of widgets necessary to make cumulative demand at price = 19 equal 26 (the supply of widgets). Since 10 widgets will be allocated from bids at price = 19, player A receives 2.8 of these widgets (27.7% of 10 rounded to the tenth). Player A will also receive his/her entire bid of 10 at price = 20.

Note that the computer could increase the market-clearing price to 20 by reducing the quantity of widgets sold to 16, but will not do so in this case because this would reduce revenue ($26 \times 19 > 16 \times 20$).

The allocation and profit of the players is as follows:

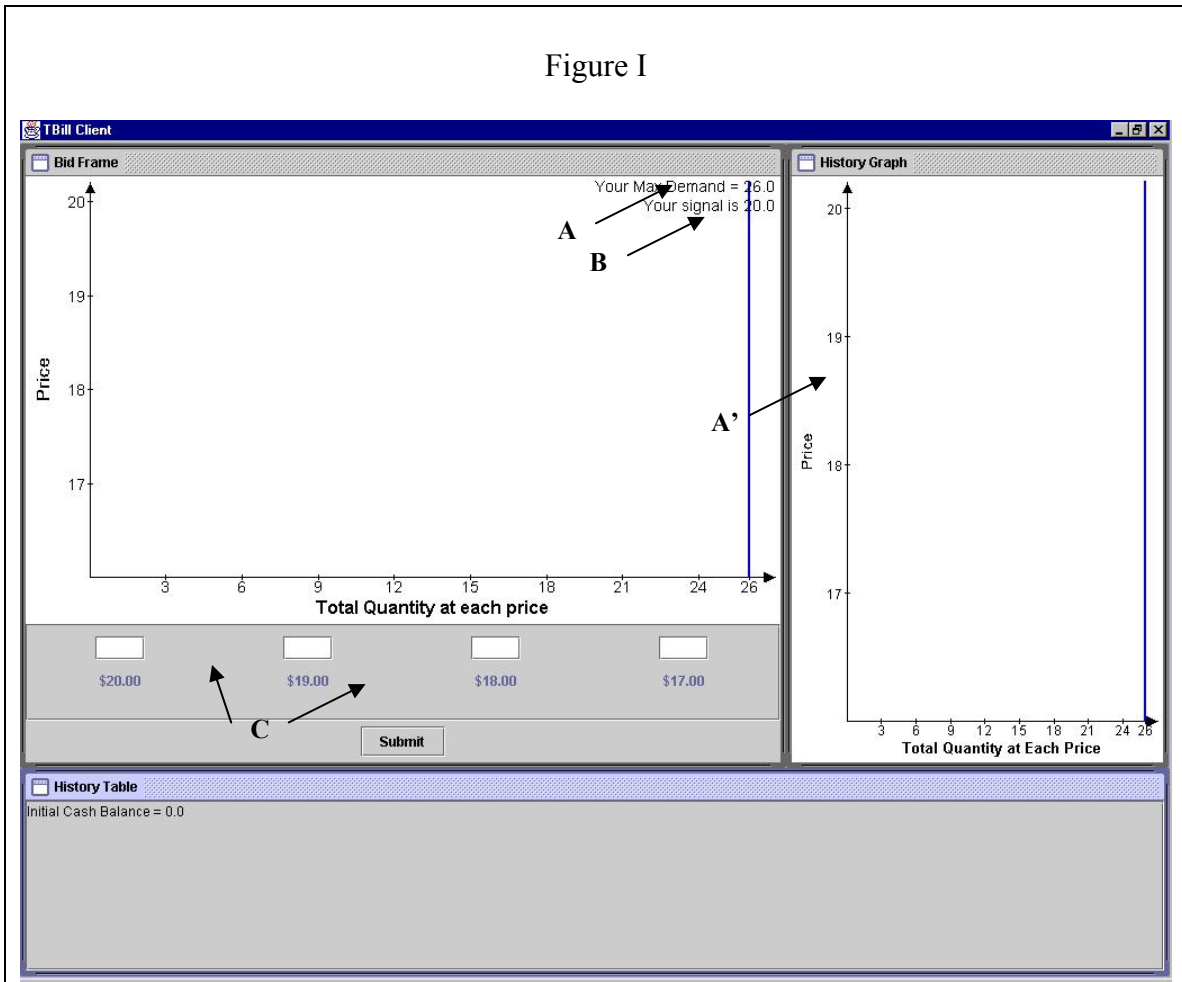
PRICE	A	B	C	D	E
Allocation	13.8	0	6.7	1.1	4.4
Profit	$13.8 \times (20-19) = \mathbf{13.8}$	0	$6.7 \times (20-19) = \mathbf{6.7}$	$1.1 \times (20-19) = \mathbf{1.1}$	$4.4 \times (20-19) = \mathbf{4.4}$

GRAPHICAL INTERFACE

The following figures are for illustrative purposes only. They are not intended to be suggested as “best” strategies and simply demonstrate the computer interface.

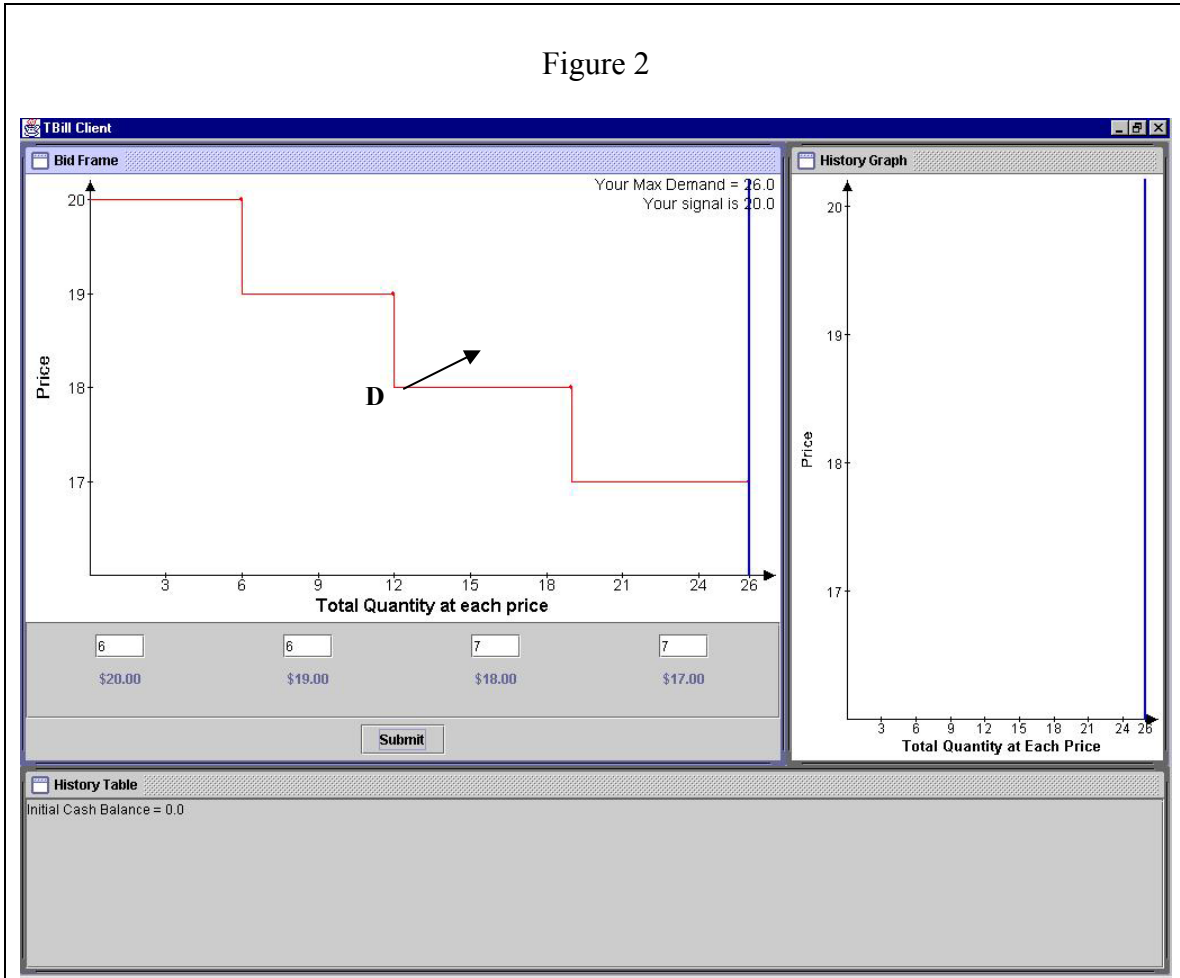
Figure 1 below shows the first screen you will see when the game starts. The computer screen is divided into three main areas: The “Bid Frame” (large area on the left-upper corner), the “History Graph” (thin rectangular area on the right-upper corner) and the “History Table” (wide rectangular area on the bottom of the screen).

Figure I



The Bid Frame is the interface that allows you to input your bids at each price. The “A” indicates your maximum demand is 26. This is also illustrated in the graph by the blue vertical line (marked A’). Point “B” reminds you that your resale value for each widget will be Fr. 20. The white fields marked with “C” are where you will input your bids at the different prices. Notice that there is one field for each of the four allowed prices (that is Fr. 20, Fr. 19, Fr. 18 and Fr. 17). You must submit your bid at each respective price by typing a non-negative integer between 0 and 26. By default the computer positions your cursor in the Fr. 20 Field. You can move to the next field (Fr. 19) by pressing Tab on your keyboard or by clicking the field with the left button of your mouse.

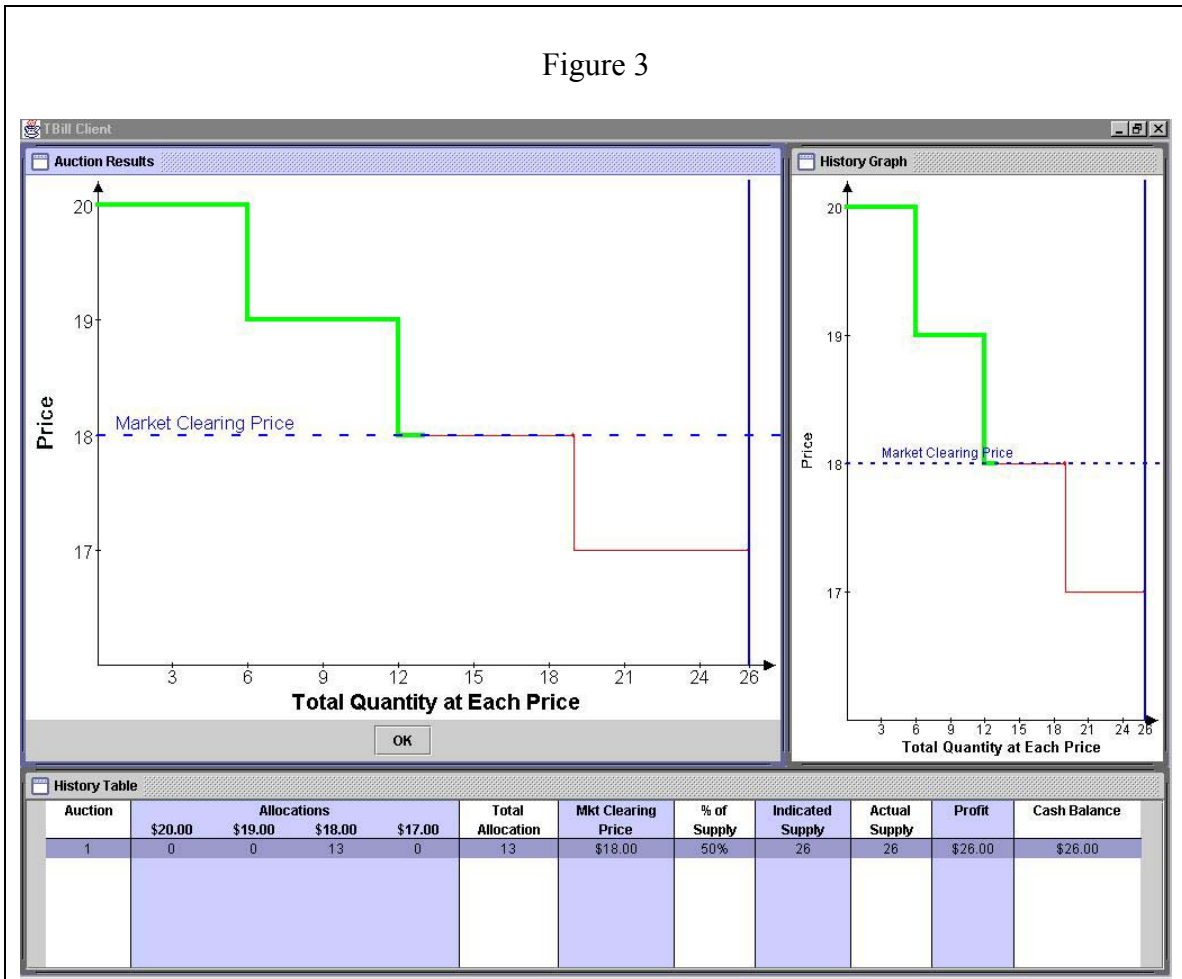
Figure 2 below shows you how the process just described works. You will notice that as you input your demand schedule in the mentioned fields, the computer will draw a demand curve (demand graph). It will look like the downward sloping ladder graph marked with the letter “D” in Figure 2.



Note that the demand curve only goes as far as the maximum demand allowed (26). You are allowed to bid for less than this amount but not more. Once you are done inputting your bids, you submit them by clicking the “Submit” button on the screen with your mouse, or by “tabbing” into it with your keyboard and pressing the “Enter” key.

Once all subjects have submitted their bids, the results for the auction will be displayed. The results for the round just played will always be displayed in the same area as the “Bid Frame” (the large area on the right-upper corner of the screen). Notice however that

the label of the Frame has changed to “Auction Results.” Figure 3 shows the hypothetical results of the first round in our example. The “Auction Results” Window will show your original demand curve, the market clearing price with a dotted blue line, and will highlight with green the portion of your demand curve which was filled (in the case of our example 13 widgets).



The “History Table” gives you a numerical summary of the round’s results. It tells you the number of widgets you were allocated, the market-clearing price, the percentage of the overall supply of 26 widgets you received, your profits, and your cash balance.

Figure 4

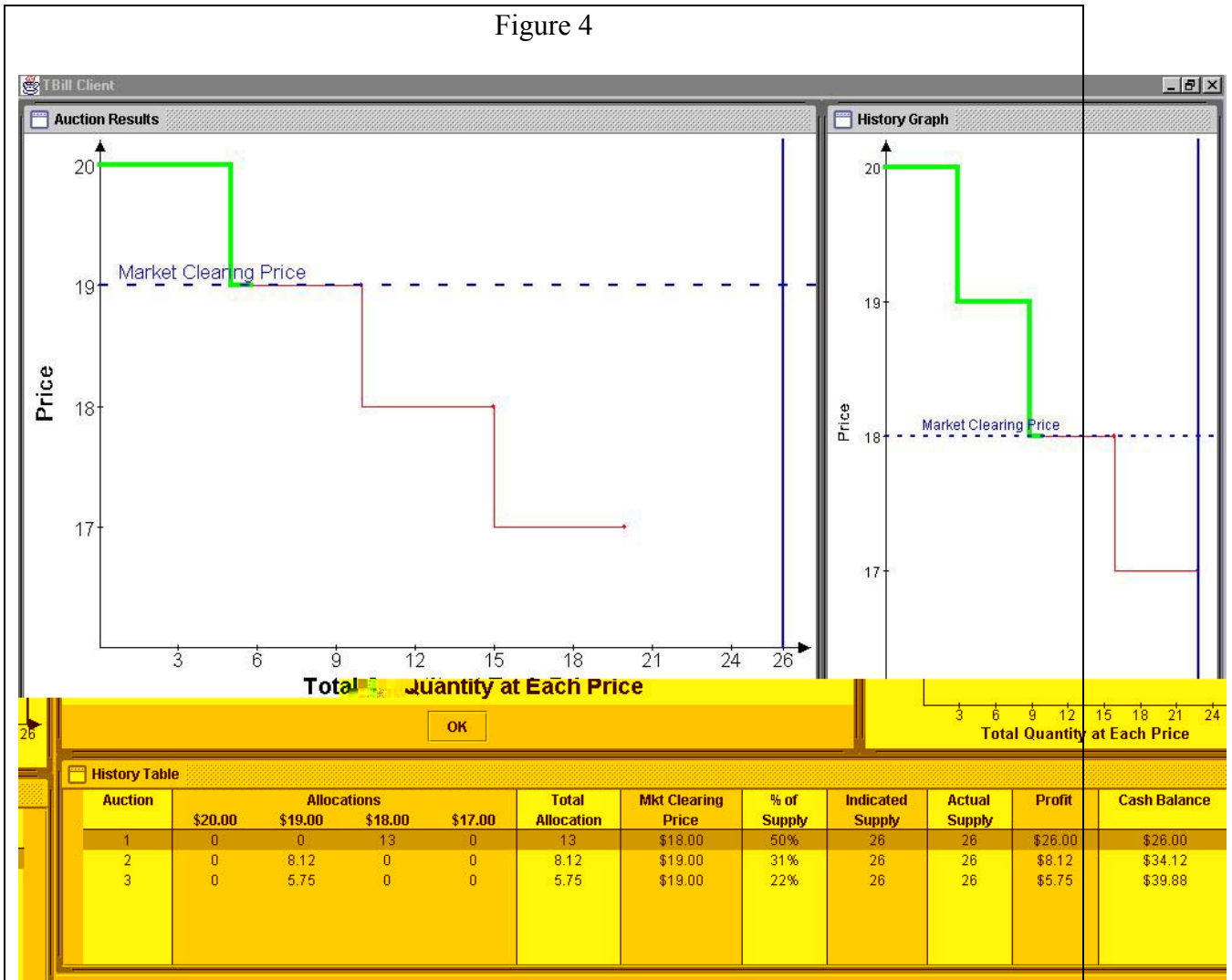


Figure 4 shows how the “History Graph” displays results from previous rounds. In this illustration, even though the game has already been played three rounds, the graph (upper right-hand corner) is showing the results of the first one. Please notice how the “Auction Results” Graph and the “History Graph” differ: the “Auction Results” Graph shows the results of the last round played (in this case round 3) and the “History Graph” is showing those of the first round.

At any point in the game you can recall the “History Graph” from past rounds by double clicking the desired round in the “History Table.” Notice in Figure 4 that although the “History Table” depicts the results of all the rounds played, the first round is highlighted.

This means that the “History Graph” shown corresponds to that highlighted round. By default, after each round, the “History Table” will highlight the last round played, but you can change this at any point of the game by highlighting the desired round. When a game lasts for more rounds than the “History Table” can show in its limited area, a scroll bar will appear to the right of the table. This allows you to view the results from any period.

The computer will randomly determine the last auction. When this occurs a screen will be displayed that reports your initial cash balance (zero) and your profits at the end of the game. If you wish you may write down your profits, but you need not do so; the experimenter has this record and will pay you your exact earnings in private. Finally, press “Enter” with the keyboard (or click “Ok” using the mouse) and your screen will go blank. If you don’t do this, the screen will automatically go blank after 60 seconds. Either way, do not get up from your seat until instructed to do so.

Quiz

1. Suppose you bid for 1 widget at a price of Fr. 20, 10 widgets at a price of Fr. 19, 2 widgets at a price of Fr. 18, and 13 widgets at a price of Fr. 17. Suppose you receive all the widgets you bid for at a price greater than or equal to Fr.18, and none of the widgets you bid for at a price of Fr. 17. What is your profit in Francs for the period?

2. Assume the following set of bids.

PRICE	Bidders					Demand	Cumulative Demand	Supply
	A	B	C	D	E			
20	1	0	5	8	1	15	15	26
19	2	0	5	0	1	8	23	26
18	10	0	5	3	12	30	53	26
17	13	26	11	15	12	77	130	26

- a. What is the market-clearing price?

- b. What is the profit of player B?

- c. What is the profit of player D?

NOTE DI LAVORO DELLA FONDAZIONE ENI ENRICO MATTEI

Fondazione Eni Enrico Mattei Working Paper Series

Our Note di Lavoro are available on the Internet at the following addresses:

<http://www.feem.it/Feem/Pub/Publications/WPapers/default.html>

<http://www.ssrn.com/link/feem.html>

NOTE DI LAVORO PUBLISHED IN 2003

PRIV	1.2003	<i>Gabriella CHIESA and Giovanna NICODANO</i> : <u>Privatization and Financial Market Development: Theoretical Issues</u>
PRIV	2.2003	<i>Ibolya SCHINDELE</i> : <u>Theory of Privatization in Eastern Europe: Literature Review</u>
PRIV	3.2003	<i>Wietze LISE, Claudia KEMFERT and Richard S.J. TOL</i> : <u>Strategic Action in the Liberalised German Electricity Market</u>
CLIM	4.2003	<i>Laura MARSILIANI and Thomas I. RENSTRÖM</i> : <u>Environmental Policy and Capital Movements: The Role of Government Commitment</u>
KNOW	5.2003	<i>Reyer GERLAGH</i> : <u>Induced Technological Change under Technological Competition</u>
ETA	6.2003	<i>Efrem CASTELNUOVO</i> : <u>Squeezing the Interest Rate Smoothing Weight with a Hybrid Expectations Model</u>
SIEV	7.2003	<i>Anna ALBERINI, Alberto LONGO, Stefania TONIN, Francesco TROMBETTA and Margherita TURVANI</i> : <u>The Role of Liability, Regulation and Economic Incentives in Brownfield Remediation and Redevelopment: Evidence from Surveys of Developers</u>
NRM	8.2003	<i>Elissaios POPYRAKIS and Reyner GERLAGH</i> : <u>Natural Resources: A Blessing or a Curse?</u>
CLIM	9.2003	<i>A. CAPARRÓS, J.-C. PEREAU and T. TAZDAÏT</i> : <u>North-South Climate Change Negotiations: a Sequential Game with Asymmetric Information</u>
KNOW	10.2003	<i>Giorgio BRUNELLO and Daniele CHECCHI</i> : <u>School Quality and Family Background in Italy</u>
CLIM	11.2003	<i>Efrem CASTELNUOVO and Marzio GALEOTTI</i> : <u>Learning By Doing vs Learning By Researching in a Model of Climate Change Policy Analysis</u>
KNOW	12.2003	<i>Carole MAIGNAN, Gianmarco OTTAVIANO and Dino PINELLI (eds.)</i> : <u>Economic Growth, Innovation, Cultural Diversity: What are we all talking about? A critical survey of the state-of-the-art</u>
KNOW	13.2003	<i>Carole MAIGNAN, Gianmarco OTTAVIANO, Dino PINELLI and Francesco RULLANI (lix)</i> : <u>Bio-Ecological Diversity vs. Socio-Economic Diversity. A Comparison of Existing Measures</u>
KNOW	14.2003	<i>Maddy JANSSENS and Chris STEYAERT (lix)</i> : <u>Theories of Diversity within Organisation Studies: Debates and Future Trajectories</u>
KNOW	15.2003	<i>Tuzin BAYCAN LEVENT, Enno MASUREL and Peter NIJKAMP (lix)</i> : <u>Diversity in Entrepreneurship: Ethnic and Female Roles in Urban Economic Life</u>
KNOW	16.2003	<i>Alexandra BITUSIKOVA (lix)</i> : <u>Post-Communist City on its Way from Grey to Colourful: The Case Study from Slovakia</u>
KNOW	17.2003	<i>Billy E. VAUGHN and Katarina MLEKOV (lix)</i> : <u>A Stage Model of Developing an Inclusive Community</u>
KNOW	18.2003	<i>Selma van LONDEN and Arie de RUIJTER (lix)</i> : <u>Managing Diversity in a Globalizing World</u>
Coalition Theory Network	19.2003	<i>Sergio CURRARINI</i> : <u>On the Stability of Hierarchies in Games with Externalities</u>
PRIV	20.2003	<i>Giacomo CALZOLARI and Alessandro PAVAN (lx)</i> : <u>Monopoly with Resale</u>
PRIV	21.2003	<i>Claudio MEZZETTI (lx)</i> : <u>Auction Design with Interdependent Valuations: The Generalized Revelation Principle, Efficiency, Full Surplus Extraction and Information Acquisition</u>
PRIV	22.2003	<i>Marco LiCalzi and Alessandro PAVAN (lx)</i> : <u>Tilting the Supply Schedule to Enhance Competition in Uniform-Price Auctions</u>
PRIV	23.2003	<i>David ETTINGER (lx)</i> : <u>Bidding among Friends and Enemies</u>
PRIV	24.2003	<i>Hannu VARTAINEN (lx)</i> : <u>Auction Design without Commitment</u>
PRIV	25.2003	<i>Matti KELOHARJU, Kjell G. NYBORG and Kristian RYDQVIST (lx)</i> : <u>Strategic Behavior and Underpricing in Uniform Price Auctions: Evidence from Finnish Treasury Auctions</u>
PRIV	26.2003	<i>Christine A. PARLOUR and Uday RAJAN (lx)</i> : <u>Rationing in IPOs</u>
PRIV	27.2003	<i>Kjell G. NYBORG and Ilya A. STREBULAEV (lx)</i> : <u>Multiple Unit Auctions and Short Squeezes</u>
PRIV	28.2003	<i>Anders LUNANDER and Jan-Eric NILSSON (lx)</i> : <u>Taking the Lab to the Field: Experimental Tests of Alternative Mechanisms to Procure Multiple Contracts</u>
PRIV	29.2003	<i>TangaMcDANIEL and Karsten NEUHOFF (lx)</i> : <u>Use of Long-term Auctions for Network Investment</u>
PRIV	30.2003	<i>Emiel MAASLAND and Sander ONDERSTAL (lx)</i> : <u>Auctions with Financial Externalities</u>
ETA	31.2003	<i>Michael FINUS and Bianca RUNDSHAGEN</i> : <u>A Non-cooperative Foundation of Core-Stability in Positive Externality NTU-Coalition Games</u>
KNOW	32.2003	<i>Michele MORETTO</i> : <u>Competition and Irreversible Investments under Uncertainty</u>
PRIV	33.2003	<i>Philippe QUIRION</i> : <u>Relative Quotas: Correct Answer to Uncertainty or Case of Regulatory Capture?</u>
KNOW	34.2003	<i>Giuseppe MEDA, Claudio PIGA and Donald SIEGEL</i> : <u>On the Relationship between R&D and Productivity: A Treatment Effect Analysis</u>

ETA	35.2003	<i>Alessandra DEL BOCA, Marzio GALEOTTI and Paola ROTÀ: <u>Non-convexities in the Adjustment of Different Capital Inputs: A Firm-level Investigation</u></i>
GG	36.2003	<i>Mathieu GLACHANT: <u>Voluntary Agreements under Endogenous Legislative Threats</u></i>
PRIV	37.2003	<i>Narjess BOUBAKRI, Jean-Claude COSSET and Omrane GUEDHAMI: <u>Postprivatization Corporate Governance: the Role of Ownership Structure and Investor Protection</u></i>
CLIM	38.2003	<i>Rolf GOLOMBEK and Michael HOEL: <u>Climate Policy under Technology Spillovers</u></i>
KNOW	39.2003	<i>Slim BEN YOUSSEF: <u>Transboundary Pollution, R&D Spillovers and International Trade</u></i>
CTN	40.2003	<i>Carlo CARRARO and Carmen MARCHIORI: <u>Endogenous Strategic Issue Linkage in International Negotiations</u></i>
KNOW	41.2003	<i>Sonia OREFFICE: <u>Abortion and Female Power in the Household: Evidence from Labor Supply</u></i>
KNOW	42.2003	<i>Timo GOESCHL and Timothy SWANSON: <u>On Biology and Technology: The Economics of Managing Biotechnologies</u></i>
ETA	43.2003	<i>Giorgio BUSETTI and Matteo MANERA: <u>STAR-GARCH Models for Stock Market Interactions in the Pacific Basin Region, Japan and US</u></i>
CLIM	44.2003	<i>Katrin MILLOCK and Céline NAUGES: <u>The French Tax on Air Pollution: Some Preliminary Results on its Effectiveness</u></i>
PRIV	45.2003	<i>Bernardo BORTOLOTTI and Paolo PINOTTI: <u>The Political Economy of Privatization</u></i>
SIEV	46.2003	<i>Elbert DIJKGRAAF and Herman R.J. VOLLEBERGH: <u>Burn or Bury? A Social Cost Comparison of Final Waste Disposal Methods</u></i>
ETA	47.2003	<i>Jens HORBACH: <u>Employment and Innovations in the Environmental Sector: Determinants and Econometrical Results for Germany</u></i>
CLIM	48.2003	<i>Lori SNYDER, Nolan MILLER and Robert STAVINS: <u>The Effects of Environmental Regulation on Technology Diffusion: The Case of Chlorine Manufacturing</u></i>
CLIM	49.2003	<i>Lori SNYDER, Robert STAVINS and Alexander F. WAGNER: <u>Private Options to Use Public Goods. Exploiting Revealed Preferences to Estimate Environmental Benefits</u></i>
CTN	50.2003	<i>László Á. KÓCZY and Luc LAUWERS (Ixi): <u>The Minimal Dominant Set is a Non-Empty Core-Extension</u></i>
CTN	51.2003	<i>Matthew O. JACKSON (Ixi): <u>Allocation Rules for Network Games</u></i>
CTN	52.2003	<i>Ana MAULEON and Vincent VANNEBELBOSCH (Ixi): <u>Farsightedness and Cautiousness in Coalition Formation</u></i>
CTN	53.2003	<i>Fernando VEGA-REDONDO (Ixi): <u>Building Up Social Capital in a Changing World: a network approach</u></i>
CTN	54.2003	<i>Matthew HAAG and Roger LAGUNOFF (Ixi): <u>On the Size and Structure of Group Cooperation</u></i>
CTN	55.2003	<i>Taiji FURUSAWA and Hideo KONISHI (Ixi): <u>Free Trade Networks</u></i>
CTN	56.2003	<i>Halis Murat YILDIZ (Ixi): <u>National Versus International Mergers and Trade Liberalization</u></i>
CTN	57.2003	<i>Santiago RUBIO and Alistair ULPH (Ixi): <u>An Infinite-Horizon Model of Dynamic Membership of International Environmental Agreements</u></i>
KNOW	58.2003	<i>Carole MAIGNAN, Dino PINELLI and Gianmarco I.P. OTTAVIANO: <u>ICT, Clusters and Regional Cohesion: A Summary of Theoretical and Empirical Research</u></i>
KNOW	59.2003	<i>Giorgio BELLETTINI and Gianmarco I.P. OTTAVIANO: <u>Special Interests and Technological Change</u></i>
ETA	60.2003	<i>Ronnie SCHÖB: <u>The Double Dividend Hypothesis of Environmental Taxes: A Survey</u></i>
CLIM	61.2003	<i>Michael FINUS, Ekko van IERLAND and Robert DELLINK: <u>Stability of Climate Coalitions in a Cartel Formation Game</u></i>
GG	62.2003	<i>Michael FINUS and Bianca RUNDSHAGEN: <u>How the Rules of Coalition Formation Affect Stability of International Environmental Agreements</u></i>
SIEV	63.2003	<i>Alberto PETRUCCI: <u>Taxing Land Rent in an Open Economy</u></i>
CLIM	64.2003	<i>Joseph E. ALDY, Scott BARRETT and Robert N. STAVINS: <u>Thirteen Plus One: A Comparison of Global Climate Policy Architectures</u></i>
SIEV	65.2003	<i>Edi DEFRANCESCO: <u>The Beginning of Organic Fish Farming in Italy</u></i>
SIEV	66.2003	<i>Klaus CONRAD: <u>Price Competition and Product Differentiation when Consumers Care for the Environment</u></i>
SIEV	67.2003	<i>Paulo A.L.D. NUNES, Luca ROSSETTO, Arianne DE BLAEIJ: <u>Monetary Value Assessment of Clam Fishing Management Practices in the Venice Lagoon: Results from a Stated Choice Exercise</u></i>
CLIM	68.2003	<i>ZhongXiang ZHANG: <u>Open Trade with the U.S. Without Compromising Canada's Ability to Comply with its Kyoto Target</u></i>
KNOW	69.2003	<i>David FRANTZ (Iix): <u>Lorenzo Market between Diversity and Mutation</u></i>
KNOW	70.2003	<i>Ercle SORI (Iix): <u>Mapping Diversity in Social History</u></i>
KNOW	71.2003	<i>Ljiljana DERU SIMIC (Ixii): <u>What is Specific about Art/Cultural Projects?</u></i>
KNOW	72.2003	<i>Natalya V. TARANOVA (Ixii): <u>The Role of the City in Fostering Intergroup Communication in a Multicultural Environment: Saint-Petersburg's Case</u></i>
KNOW	73.2003	<i>Kristine CRANE (Ixii): <u>The City as an Arena for the Expression of Multiple Identities in the Age of Globalisation and Migration</u></i>
KNOW	74.2003	<i>Kazuma MATOBA (Ixii): <u>Glocal Dialogue- Transformation through Transcultural Communication</u></i>
KNOW	75.2003	<i>Catarina REIS OLIVEIRA (Ixii): <u>Immigrants' Entrepreneurial Opportunities: The Case of the Chinese in Portugal</u></i>
KNOW	76.2003	<i>Sandra WALLMAN (Ixii): <u>The Diversity of Diversity - towards a typology of urban systems</u></i>
KNOW	77.2003	<i>Richard PEARCE (Ixii): <u>A Biologist's View of Individual Cultural Identity for the Study of Cities</u></i>
KNOW	78.2003	<i>Vincent MERK (Ixii): <u>Communication Across Cultures: from Cultural Awareness to Reconciliation of the Dilemmas</u></i>

KNOW	79.2003	<i>Giorgio BELLETTINI, Carlotta BERTI CERONI and Gianmarco I.P.OTTAVIANO: <u>Child Labor and Resistance to Change</u></i>
ETA	80.2003	<i>Michele MORETTO, Paolo M. PANTEGHINI and Carlo SCARPA: <u>Investment Size and Firm's Value under Profit Sharing Regulation</u></i>
IEM	81.2003	<i>Alessandro LANZA, Matteo MANERA and Massimo GIOVANNINI: <u>Oil and Product Dynamics in International Petroleum Markets</u></i>
CLIM	82.2003	<i>Y. Hossein FARZIN and Jinhua ZHAO: <u>Pollution Abatement Investment When Firms Lobby Against Environmental Regulation</u></i>
CLIM	83.2003	<i>Giuseppe DI VITA: <u>Is the Discount Rate Relevant in Explaining the Environmental Kuznets Curve?</u></i>
CLIM	84.2003	<i>Reyer GERLAGH and Wietze LISE: <u>Induced Technological Change Under Carbon Taxes</u></i>
NRM	85.2003	<i>Rinaldo BRAU, Alessandro LANZA and Francesco PIGLIARU: <u>How Fast are the Tourism Countries Growing? The cross-country evidence</u></i>
KNOW	86.2003	<i>Elena BELLINI, Gianmarco I.P. OTTAVIANO and Dino PINELLI: <u>The ICT Revolution: opportunities and risks for the Mezzogiorno</u></i>
SIEV	87.2003	<i>Lucas BRETSCGHER and Sjak SMULDERS: <u>Sustainability and Substitution of Exhaustible Natural Resources. How resource prices affect long-term R&D investments</u></i>
CLIM	88.2003	<i>Johan EYCKMANS and Michael FINUS: <u>New Roads to International Environmental Agreements: The Case of Global Warming</u></i>
CLIM	89.2003	<i>Marzio GALEOTTI: <u>Economic Development and Environmental Protection</u></i>
CLIM	90.2003	<i>Marzio GALEOTTI: <u>Environment and Economic Growth: Is Technical Change the Key to Decoupling?</u></i>
CLIM	91.2003	<i>Marzio GALEOTTI and Barbara BUCHNER: <u>Climate Policy and Economic Growth in Developing Countries</u></i>
IEM	92.2003	<i>A. MARKANDYA, A. GOLUB and E. STRUKOVA: <u>The Influence of Climate Change Considerations on Energy Policy: The Case of Russia</u></i>
ETA	93.2003	<i>Andrea BELTRATTI: <u>Socially Responsible Investment in General Equilibrium</u></i>
CTN	94.2003	<i>Parkash CHANDER: <u>The γ-Core and Coalition Formation</u></i>
IEM	95.2003	<i>Matteo MANERA and Angelo MARZULLO: <u>Modelling the Load Curve of Aggregate Electricity Consumption Using Principal Components</u></i>
IEM	96.2003	<i>Alessandro LANZA, Matteo MANERA, Margherita GRASSO and Massimo GIOVANNINI: <u>Long-run Models of Oil Stock Prices</u></i>
CTN	97.2003	<i>Steven J. BRAMS, Michael A. JONES, and D. Marc KILGOUR: <u>Forming Stable Coalitions: The Process Matters</u></i>
KNOW	98.2003	<i>John CROWLEY, Marie-Cecile NAVES (Ixiii): <u>Anti-Racist Policies in France. From Ideological and Historical Schemes to Socio-Political Realities</u></i>
KNOW	99.2003	<i>Richard THOMPSON FORD (Ixiii): <u>Cultural Rights and Civic Virtue</u></i>
KNOW	100.2003	<i>Alaknanda PATEL (Ixiii): <u>Cultural Diversity and Conflict in Multicultural Cities</u></i>
KNOW	101.2003	<i>David MAY (Ixiii): <u>The Struggle of Becoming Established in a Deprived Inner-City Neighbourhood</u></i>
KNOW	102.2003	<i>Sébastien ARCAND, Danielle JUTEAU, Sirma BILGE, and Francine LEMIRE (Ixiii) : <u>Municipal Reform on the Island of Montreal: Tensions Between Two Majority Groups in a Multicultural City</u></i>
CLIM	103.2003	<i>Barbara BUCHNER and Carlo CARRARO: <u>China and the Evolution of the Present Climate Regime</u></i>
CLIM	104.2003	<i>Barbara BUCHNER and Carlo CARRARO: <u>Emissions Trading Regimes and Incentives to Participate in International Climate Agreements</u></i>
CLIM	105.2003	<i>Anil MARKANDYA and Dirk T.G. RÜBBELKE: <u>Ancillary Benefits of Climate Policy</u></i>
NRM	106.2003	<i>Anne Sophie CRÉPIN (Ixiv): <u>Management Challenges for Multiple-Species Boreal Forests</u></i>
NRM	107.2003	<i>Anne Sophie CRÉPIN (Ixiv): <u>Threshold Effects in Coral Reef Fisheries</u></i>
SIEV	108.2003	<i>Sara ANIYAR (Ixiv): <u>Estimating the Value of Oil Capital in a Small Open Economy: The Venezuela's Example</u></i>
SIEV	109.2003	<i>Kenneth ARROW, Partha DASGUPTA and Karl-Göran MÄLER(Ixiv): <u>Evaluating Projects and Assessing Sustainable Development in Imperfect Economies</u></i>
NRM	110.2003	<i>Anastasios XEPAPADEAS and Catarina ROSETA-PALMA(Ixiv): <u>Instabilities and Robust Control in Fisheries</u></i>
NRM	111.2003	<i>Charles PERRINGS and Brian WALKER (Ixiv): <u>Conservation and Optimal Use of Rangelands</u></i>
ETA	112.2003	<i>Jack GOODY (Ixiv): <u>Globalisation, Population and Ecology</u></i>
CTN	113.2003	<i>Carlo CARRARO, Carmen MARCHIORI and Sonia OREFFICE: <u>Endogenous Minimum Participation in International Environmental Treaties</u></i>
CTN	114.2003	<i>Guillaume HAERINGER and Myrna WOODERS: <u>Decentralized Job Matching</u></i>
CTN	115.2003	<i>Hideo KONISHI and M. Utku UNVER: <u>Credible Group Stability in Multi-Partner Matching Problems</u></i>
CTN	116.2003	<i>Somdeb LAHIRI: <u>Stable Matchings for the Room-Mates Problem</u></i>
CTN	117.2003	<i>Somdeb LAHIRI: <u>Stable Matchings for a Generalized Marriage Problem</u></i>
CTN	118.2003	<i>Marita LAUKKANEN: <u>Transboundary Fisheries Management under Implementation Uncertainty</u></i>

CTN	119.2003	<i>Edward CARTWRIGHT and Myrna WOODERS: <u>Social Conformity and Bounded Rationality in Arbitrary Games with Incomplete Information: Some First Results</u></i>
CTN	120.2003	<i>Gianluigi VERNASCA: <u>Dynamic Price Competition with Price Adjustment Costs and Product Differentiation</u></i>
CTN	121.2003	<i>Myrna WOODERS, Edward CARTWRIGHT and Reinhard SELTEN: <u>Social Conformity in Games with Many Players</u></i>
CTN	122.2003	<i>Edward CARTWRIGHT and Myrna WOODERS: <u>On Equilibrium in Pure Strategies in Games with Many Players</u></i>
CTN	123.2003	<i>Edward CARTWRIGHT and Myrna WOODERS: <u>Conformity and Bounded Rationality in Games with Many Players</u></i>
1000		Carlo CARRARO, Alessandro LANZA and Valeria PAPPONETTI: <u>One Thousand Working Papers</u>

NOTE DI LAVORO PUBLISHED IN 2004

IEM	1.2004	<i>Anil MARKANDYA, Suzette PEDROSO and Alexander GOLUB: <u>Empirical Analysis of National Income and SO₂ Emissions in Selected European Countries</u></i>
ETA	2.2004	<i>Masahisa FUJITA and Shlomo WEBER: <u>Strategic Immigration Policies and Welfare in Heterogeneous Countries</u></i>
PRA	3.2004	<i>Adolfo DI CARLUCCIO, Giovanni FERRI, Cecilia FRALE and Ottavio RICCHI: <u>Do Privatizations Boost Household Shareholding? Evidence from Italy</u></i>
ETA	4.2004	<i>Victor GINSBURGH and Shlomo WEBER: <u>Languages Disenfranchisement in the European Union</u></i>
ETA	5.2004	<i>Romano PIRAS: <u>Growth, Congestion of Public Goods, and Second-Best Optimal Policy</u></i>
CCMP	6.2004	<i>Herman R.J. VOLLEBERGH: <u>Lessons from the Polder: Is Dutch CO₂-Taxation Optimal</u></i>
PRA	7.2004	<i>Sandro BRUSCO, Giuseppe LOPOMO and S. VISWANATHAN (lxv): <u>Merger Mechanisms</u></i>
PRA	8.2004	<i>Wolfgang AUSSENEGG, Pegaret PICHLER and Alex STOMPER (lxv): <u>IPO Pricing with Bookbuilding, and a When-Issued Market</u></i>
PRA	9.2004	<i>Pegaret PICHLER and Alex STOMPER (lxv): <u>Primary Market Design: Direct Mechanisms and Markets</u></i>
PRA	10.2004	<i>Florian ENGLMAIER, Pablo GUILLEN, Loreto LLORENTE, Sander ONDERSTAL and Rupert SAUSGRUBER (lxv): <u>The Chopstick Auction: A Study of the Exposure Problem in Multi-Unit Auctions</u></i>
PRA	11.2004	<i>Bjarne BRENDSTRUP and Harry J. PAARSCH (lxv): <u>Nonparametric Identification and Estimation of Multi-Unit, Sequential, Oral, Ascending-Price Auctions With Asymmetric Bidders</u></i>
PRA	12.2004	<i>Ohad KADAN (lxv): <u>Equilibrium in the Two Player, k-Double Auction with Affiliated Private Values</u></i>
PRA	13.2004	<i>Maarten C.W. JANSSEN (lxv): <u>Auctions as Coordination Devices</u></i>
PRA	14.2004	<i>Gadi FIBICH, Arieh GAVIOUS and Aner SELA (lxv): <u>All-Pay Auctions with Weakly Risk-Averse Buyers</u></i>
PRA	15.2004	<i>Orly SADE, Charles SCHNITZLEIN and Jaime F. ZENDER (lxv): <u>Competition and Cooperation in Divisible Good Auctions: An Experimental Examination</u></i>

- (lix) This paper was presented at the ENGIME Workshop on “Mapping Diversity”, Leuven, May 16-17, 2002
- (lx) This paper was presented at the EuroConference on “Auctions and Market Design: Theory, Evidence and Applications”, organised by the Fondazione Eni Enrico Mattei, Milan, September 26-28, 2002
- (lxi) This paper was presented at the Eighth Meeting of the Coalition Theory Network organised by the GREQAM, Aix-en-Provence, France, January 24-25, 2003
- (lxii) This paper was presented at the ENGIME Workshop on “Communication across Cultures in Multicultural Cities”, The Hague, November 7-8, 2002
- (lxiii) This paper was presented at the ENGIME Workshop on “Social dynamics and conflicts in multicultural cities”, Milan, March 20-21, 2003
- (lxiv) This paper was presented at the International Conference on “Theoretical Topics in Ecological Economics”, organised by the Abdus Salam International Centre for Theoretical Physics - ICTP, the Beijer International Institute of Ecological Economics, and Fondazione Eni Enrico Mattei - FEEM Trieste, February 10-21, 2003
- (lxv) This paper was presented at the EuroConference on “Auctions and Market Design: Theory, Evidence and Applications” organised by Fondazione Eni Enrico Mattei and sponsored by the EU, Milan, September 25-27, 2003

2003 SERIES

CLIM	<i>Climate Change Modelling and Policy</i> (Editor: Marzio Galeotti)
GG	<i>Global Governance</i> (Editor: Carlo Carraro)
SIEV	<i>Sustainability Indicators and Environmental Valuation</i> (Editor: Anna Alberini)
NRM	<i>Natural Resources Management</i> (Editor: Carlo Giupponi)
KNOW	<i>Knowledge, Technology, Human Capital</i> (Editor: Gianmarco Ottaviano)
IEM	<i>International Energy Markets</i> (Editor: Anil Markandya)
CSRM	<i>Corporate Social Responsibility and Management</i> (Editor: Sabina Ratti)
PRIV	<i>Privatisation, Regulation, Antitrust</i> (Editor: Bernardo Bortolotti)
ETA	<i>Economic Theory and Applications</i> (Editor: Carlo Carraro)
CTN	<i>Coalition Theory Network</i>

2004 SERIES

CCMP	<i>Climate Change Modelling and Policy</i> (Editor: Marzio Galeotti)
GG	<i>Global Governance</i> (Editor: Carlo Carraro)
SIEV	<i>Sustainability Indicators and Environmental Valuation</i> (Editor: Anna Alberini)
NRM	<i>Natural Resources Management</i> (Editor: Carlo Giupponi)
KTHC	<i>Knowledge, Technology, Human Capital</i> (Editor: Gianmarco Ottaviano)
IEM	<i>International Energy Markets</i> (Editor: Anil Markandya)
CSRM	<i>Corporate Social Responsibility and Management</i> (Editor: Sabina Ratti)
PRA	<i>Privatisation, Regulation, Antitrust</i> (Editor: Bernardo Bortolotti)
ETA	<i>Economic Theory and Applications</i> (Editor: Carlo Carraro)
CTN	<i>Coalition Theory Network</i>