Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: **Anmol Ratan,** University of Maryland

TITLE: Reference-Dependent Preferences in First Price Auctions

TIME: 11:30-1:00 P.M.

DAY & DATE: Friday, 12th February, 2010

PLACE: Seminar Room 2

 Abstract:

In this paper I develop a Prospect theory based model to explain bidding in first-price auctions. As suggested in the literature, bidding occurs in these auctions in an inherently ambiguous environment due to lack of information about bidders' risk attitudes and bidding strategies. I show that bidding in first-price auctions can be rationalized as a combination of reactions to underlying ambiguity and anticipated loss aversion. Using data from experimental auctions, I provide evidence that in induced value auctions against human bidders this approach works well. In auctions with prior experience and /or against risk-neutral Nash bidders where ambiguity effects could be altogether irrelevant, anticipated loss aversion by itself can explain aggressive bidding. This is a novel result in the literature. Using data from experiments I find that ambiguity effects become negligible in auctions with prior experience (with loss aversion) against (i) experienced human bidders and (ii) Nash computer bidders. The estimates for loss aversion are similar in auctions against human bidders.

http://www.isid.ac.in/~pu/seminar.html