“The Bidder’s Curse”

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Abstract
Do biases matter in markets where consumers interact frequently and have opportunities to learn and sort? We study auction markets and argue that auctions amplify the effect of individual biases to overbid. Auctions systematically pick those consumers as winners whose willingness to bid is most upward biased.

Using a novel data set on eBay auctions, we find that, in the majority of auctions, the final price is higher than a fixed price at which the same good is available for immediate purchase on the same webpage. Such overbidding is most likely in auction with long listing periods, high bidder participation, high position on the website, and if the item description explicitly mentions the (higher) manufacturer price. Few biased bidders (12%) suffice to generate overbidding on average since they win the majority of auctions. Moreover, the most experienced market participants are most likely to bid suboptimally. Thus, experience does not eliminate overbidding. The latter result also indicates that overbidding reflects individual biases rather than search cost or other standard explanations for suboptimal purchase decisions.