Abstract:
Based on research documenting competition neglect, it was hypothesized that high demand markets would tend to exhibit excessive entry. This hypothesis was tested analyzing eBay data. As predicted it was found that a disproportionate number of sellers end their auctions during peak bidding hours, leading such hours to be less profitable. Additional analyses allow the categorization of sellers based on their sophistication (akin to level-k reasoning models) and show that the excessive entry is driven by sellers who realize that ending time is a strategic variable, but not that other sellers have the same insight (i.e. “level-1s”). Three alternative explanations, including unobserved heterogeneity of sellers ending auctions at different times of day, are ruled out. Finally, content analysis of 26 advice-books for eBay sellers shows that even the (presumably) sophisticated eBay users writing these books neglect the impact of competition on the profitability of entering markets with greater demand.