"Preemption and Jump Bidding - the Case Against Information Aggregation" by Vladimir Mares Northwestern University April 2009

Abstract

This paper constructs an integrated model of preemption and joint bidding in open auctions. The decision to discretely increase the price is endogenous and relies purely managing the flow of information among a bidder's competitors. Bidders' differentiated sensitivities to the information revealed in the auction process provides incentives to manipulate and censor the price formation process in their favor by using simple devices like opening bids or discrete jumps. In doing so they affect both the expected price and the allocation of the asset. Increased competition can actually strengthen these incentives. The paper characterizes optimal bidding plans and derives comparative statics.