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The Value of Information in a Sealed-Bid Auction

by

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Abstract. In this paper, we explore bidders' incentives to gather information in a sealed bid auction, when there is one bidder with only public information and another with some private information. We find that the bidder with only public information makes no profit at equilibrium, while the bidder with private information generally makes positive profits. Moreover, the informed bidder's profits rise when he gathers extra information, and the increase is greater when the information is collected overtly than when it is collected covertly. When the uninformed bidder can observe some of the better-informed bidder's information, he prefers to make his observations covertly. If the seller has access to some of the better-informed bidder's information, or if he has affiliated information of his own, he can raise the expected price by adopting a policy of making that information public. However, there are cases where a policy of publicizing his information would lower the expected price. The distinguishing feature of these latter cases seems to be that the seller's information is complementary to the information of the better-informed bidder.

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