

Discussion of:

Testing for Nonstandard  
Behavior in Auctions in the  
Presence of Unobserved  
Demand

By Joseph Podwol and  
Henry Schneider

John Asker

NYU, Stern School of Business

November 3, 2011

FTC

- !Research Question:

Does bidding behavior in Ebay auctions deviate systematically from the standard model?

- !Approach:

Formulate a field experiment that speaks to hypotheses in literature.  
Revisit findings from transactional data in light of findings

- !Why is this interesting?

- 1.! Helps think through when behavior might invite paternalistic intervention
- 2.! Lets us know when theory works and when it does not
- 3.! Provides a critique to aspects of the "Behavioral Economics" literature at a methodological level

- !Non-standard behaviors:

- !Non-rational herding: "more bidders must mean better quality, even if bidding activity has to be uninformative"

- !Auction fever: "it's all just sooooo exciting!"

- !Quasi-endowment: "I feel like I own it already so I'll bid more"

- !Escalation on commitment "I've put so much into it already that I'll bid more"

-



## Strategy

- ! Run a field experiment on ebay in which use matched pairs of movies
  - ! Only difference is the starting price
  
- ! Why do you need to do this?
  - ! Controls for unobservable demand factors
  - ! Starting price is a publically observable reserve price – reserve prices respond to demand conditions.

What happens?

- !Focus on revenue results
  - !lower starting price less than higher starting price (5% sig)
  - !difference economically significant – 50c on a \$5-\$10 DVD
- !now look at the observational data



## Nonstandard Behavior in Auctions

### Comments

- !though-provoking critique of standard of empirical work in the behavioral field.
- !suggests caution in attributing findings to behavioral biases
- !despite the negative nature of the findings, I hope people pay attention