

Competition Issues

Presentation to Federal Trade Commission

Dr. Robert C. Marshall, Penn State University / Bates White, LLC

October 27, 2005

Bidder collusion—why emphasize?

- Of all the factors considered by economists with regard to auction design that impact revenue/cost and efficiency, bidder collusion is the leading potential threat to revenue/cost and can cause significant inefficiencies
 - Suppression of rivalry is often the easiest source of payoff
- Given this, we need to understand the incentives created for collusion with each mechanism; presuming non-collusive behavior, because bid-rigging is a crime, is naive
 - Most major industrial cartels, no matter how organized (market share allocation, geographic splits, etc.), rig bids to attain higher profits

Collusion at Internet auctions/procurements

- Has the Internet created opportunities for collusion that did not exist before?
 - Any “new” rule is a potential opportunity for collusion
- Has the Internet inhibited collusion that used to exist?
- How should Internet auction/procurement design be impacted by the potential for collusion?
- What information can be retained when using the Internet for auctions/procurements?
- Will knowledge that such information is being retained impact collusion?

Colluding bidders like “transparency”

- Message space potentially expands
 - Payoffs and penalties conditional on actions/behaviors that rely on available information
 - “Need for transparency” for fairness and openness will be soundly supported by colluding bidders
 - Inter-bidder communication
 - Through the auction/procurement
 - Through other Internet-based options (little can be done here)
- Message space can shrink with Internet auctions/procurements
 - Should be carefully considered as an anti-collusive advantage of design

Recommendations

- Save ALL the data
 - Internet auctions/procurements create the opportunity to simply retain every action taken and every bid submitted
 - Make it known that this will be done
- Conditioning on non-collusive behavior in design is naive
 - The first consideration with design should be collusion
- Limit information conveyed to bidders
- Emphasize use of schemes that require the ring to change the bids of all bidders, especially the one with highest value or lowest cost

Center for the Study of Auctions, Procurements, and Competition Policy (CAPCP)

- Through Economics Department at Penn State
 - Co-directors: Robert Marshall and Isabelle Perrigne
 - Faculty include: Vijay Krishna, Quang Vuong, Kalyan Chatterjee, Jim Jordan, Mark Roberts, Jim Tybout
- Bridge between academia and decision makers in the private sector as well as public policy arena
- Activities
 - Sponsor conferences, seminars
 - Develop working papers
 - Provide graduate student support
 - Administer research initiatives
 - Research experiences for undergraduates
- <http://econ.la.psu.edu/~bickes/CAPCP.htm>

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