

Discussion of:

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

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FTC

Research question

- 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

Hypotheses to be tested

- 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”
- Irrational limited attention: “I wear blinkers when I surf the internet, and so don’t spot BIN options that make more sense...”

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 - Irrational limited attention: “I wear blinkers when I surf the internet, and so don’t spot BIN options that make more sense...”
- Imply that:
 - low starting price results in more activity when price higher than higher starting price
 - expected revenue higher with low starting price

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.

Nonstandard Behavior in Auctions

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

What happens?

Table 8: Estimated models of ending price using observational data

	(1)	(2)	(3)	(4)
Starting price	0.325*** [0.025]	0.306*** [0.031]	0.346*** [0.043]	-0.007 [0.063]
Shipping fee	-0.615*** [0.043]	-0.638*** [0.053]	-0.498*** [0.062]	-0.524*** [0.086]
Priority shipping	0.269 [0.191]	-0.006 [0.229]	0.212 [0.287]	-0.184 [0.333]
Auction duration (days)	0.140*** [0.032]	0.089** [0.041]	0.155*** [0.048]	0.135** [0.062]
N competing auctions	-0.157*** [0.039]		-0.096 [0.059]	
New DVD	1.385*** [0.128]		1.094*** [0.179]	
Special edition DVD	2.641*** [0.209]		3.141*** [0.273]	
eBay store	0.175 [0.138]	0.161 [0.165]	0.358* [0.206]	0.161 [0.267]
Powerseller	-0.174 [0.147]	-0.194 [0.171]	-0.259 [0.213]	-0.112 [0.246]
Log of seller score	0.152*** [0.032]	0.148*** [0.037]	0.126*** [0.046]	0.081 [0.051]
% seller score positive	0.007 [0.021]	0.024 [0.024]	-0.023 [0.031]	0.064* [0.038]
Intercept	2.245 [2.036]	2.653 [2.391]	5.511* [3.047]	0.117 [3.741]
Movie fixed effects	Yes	No	Yes	No
Group fixed effects	No	Yes	No	Yes
Only auctions that exceed high starting price in group	No	No	Yes	Yes
Observations	1916	1916	1099	1099
Pseudo R-squared	0.513	0.792	0.473	0.873

Notes: The unit of observation is auction. The dependent variable is the auction's ending price. The models are estimated by OLS. Groups in columns (3) and (4) are auctions with the same movie/DVD version, new/used status, and end date. Standard errors are reported in brackets. "N competing auctions" is the number of auctions for that movie/version and new/used status that ended on the same day (i.e., in the same group). *, **, and *** indicates significance at the 10, 5, and 1 percent levels, respectively.

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Comments

- thought-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