

Abstract:

Much of the work on auction theory focuses on design aspects in situations motivated by formally organized auctions, like those held by government agencies. However, auction models are also convenient abstractions of less formal price-formation processes that arise in markets for assets or services. Existing models have to be enriched to capture certain frictions that are more salient in such informal situations. In particular, bidder participation may be the outcome of costly recruitment efforts, participation may be costly for the bidders as well, the seller's commitment abilities may be limited, and the seller's private information may be more consequential. This paper develops a model of auctions with such frictions and derives some novel predictions. In particular, outcomes are often inefficient, and the market sometimes u