

Economics 200
Spring 2008
Prof. Haile
Problem Set 8 (practice)

1. Consider a second-price sealed-bid auction in the symmetric independent private values model. Let u_i denote the valuation of bidder i . and let \underline{u} and \bar{u} , respectively, denote the minimum and maximum possible valuations. Suppose there are 2 bidders.

In class we proved that one equilibrium is for all bidders to bid their valuations. Argue that the following strategies constitute another Nash equilibrium: for bidder 1, $\beta_1(u_1) = \bar{u}$ for all u_1 ; for bidder 2: $\beta_2(u_2) = \underline{u}$ for all u_2 . What is the seller's expected revenue in this equilibrium? Can you offer an argument that this equilibrium does not represent the behavior we should expect to see in practice?