

ABSTRACT

The paper analyzes a first price, sealed bid auction with a random reservation price where the object has an unknown common value, but one buyer has better information than the others. We permit the reservation price to be correlated with the information of the informed buyer, which reflects both his assessment of the value of the object and probability of rejection at any bid. Assuming all random variables are affiliated, we establish the following results.

(1) The rate of increase in the distribution of the uninformed bid is never greater than the rate of increase in the distribution of the informed bid. (2) The distributions are identical at bids above the support of the reservation price. (3) The informed buyer is more likely to submit low bids. We demonstrate that these restrictions are satisfied by bid data from the federal sales of offshore drainage leases. JEL Classification Numbers: 022,611,632.

Key Words: Affiliation, Bidding, Oil, Auctions.