The Winner's Curse: The Effect of Standard Auction Features and Behavioral Factors on Overbidding

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Overbidding has been a concern among bidders since the beginning of auctions, but it has been difficult to quantify since overbidding is defined relative to one's subjective valuation. However, through analysis in a framework with a continuous fixed price available, it is possible to compare overbidding to a value independent of consumer biases. The purpose of this project, therefore, was to detect and explain overbidding through a series of standard auction and behavioral factors. It was hypothesized that limited attention would have the greatest explanatory power in overbidding, due to the heightened effect of biases and non-standard preferences in raising auction prices.100 auctions and BINs for both a core item and cross-sectional dataset from eBay were examined for the prevalence of overbidding and correlations with differences in shipping costs, sales tax, seller reputation, quality, buyer experience, and availability of fixed price. 34% of auctions (47% with shipping costs) were recorded with the final price exceeding fixed price. The behavioral factor of utility from winning was tested for correlations between overbidding and time spent as lead bidder. Limited attention was also examined through regression analysis and measured a positive correlation (odds 1.173 greater for each row) as distance to fixed price listings increased. These results indicate that buyers do not always purchase the lowest price goods available and have broader implications about non-standard consumer behavior that can help model competition in different markets. Further studies include examining the effect of the number of over-bidders on increasing auction prices.

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