

Abstract

We investigate the efficiency properties of sealed-bid second price auctions under costly participation with or without resale. Each bidder chooses to participate in the auction if her valuation is higher than her optimally chosen participation cutoff. If resale is not allowed and the bidder valuations are drawn from the same strictly convex distribution function, the symmetric equilibrium -- where all bidders choose the same participation cutoff -- is efficiency-dominated by a class of asymmetric equilibria -- which divides the bidders into two groups using two different participation cutoffs. Existence of two-cutoff equilibria when resale is not allowed is also sufficient for the existence of similarly constructed two-cutoff equilibria under possibility of resale. We establish a sufficient condition under which the resale opportunities improve efficiency of the second price auction further.

*-joint with Görkem Çelik