# Nick Netzer

University of Zurich


# "An Externality-Robust Auction"


**Abstract**

An auction is said to be externality-robust if unilateral deviations from equilibrium leave the remaining bidders' payoffs unaffected. The equilibrium and its outcome will then persist even if externalities between bidders arise from certain types of interdependent preferences. One important example are externalities due to spiteful preferences, which are frequently used to explain overbidding in auctions. Another important example is cross-shareholdings between firms that compete in an auction. For the independent private values model, we first present an auction that coincides with the second-price auction in terms of efficiency, expected revenue and interim utilities of all bidders, and, in contrast to the second-price auction, is also externality-robust. We then test experimentally whether the auction in fact reduces overbidding by eliminating the behavioural impact of subjects' spiteful preferences.


Contact person: Alexander Sebald