

Wambach, Achim

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Collusion in Beauty Contests

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COLLUSION IN BEAUTY CONTESTS

Achim Wambach*

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CESifo
Center for Economic Studies & Ifo Institute for Economic Research
Poschingerstr. 5, 81679 Munich, Germany
Phone: +49 (89) 9224-1410 - Fax: +49 (89) 9224-1409
e-mail: office@CESifo.de
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COLLUSION IN BEAUTY CONTESTS

Abstract

During the recent sales of UMTS licenses in Europe some countries used auctions while others resorted to so-called Beauty Contests. There seems to be a wide consensus among economists that in these and other contexts like privatisation an auction is the better selling mechanism. However, why exactly an auction should be preferred is unclear. Here we present an argument why beauty contests or negotiations might be dominated by auctions, which is closely linked to the multi dimensionality on issues involved in this process. The important assumption we make is that bidding firms do not know the preferences of the government. As a consequence, during a beauty contest participants are uncertain about the final decision of the government. This uncertainty enables firms to collude.

JEL Classification: C78, D44, D82, L51.

Keywords: auctions, collusion, beauty contests.

Achim Wambach
Department of Economics
University of Erlangen-Nuremberg
Lange Gasse 20
90403 Nuernberg
Germany
achim.wambach@wiso.uni-erlangen.de