Abstract

We investigate experimentally the Winner’s Curse phenomenon in a generalized environment with pure common values. Participants are given examples in which parameters lead to prize values (using an undisclosed rule). They are then asked to estimate the prize value with a final set of parameter values and then bid for this prize value in a second-price auction. Unlike previous studies, two main ingredients ‘responsible’ for the creation of the winner’s curse are absent: 1) there is no presumption of common knowledge of a joint distribution, and 2) all signals are identical and public. Thus, it is difficult to discuss or compute a Bayes-Nash equilibrium and therefore to measure individual departures from it. It is unclear how one constructs a posterior distribution conditional on winning, as we don’t induce any priors. Assuming common knowledge in this context is highly implausible. We find strong evidence of the winner’s curse that is entirely consistent with previous findings from standard environments. We also find that the winner’s curse results from both dispersion of the prize estimates made and poorly-chosen bid-strategies. Finally, the nearest-neighbors method explains well how participants make estimates of the (common) value.