Advantaged Bidders and Spectrum Prices: An Empirical Analysis
Paul Klemperer and Marco Pagnozzi

Preliminary Abstract

Several recent papers suggest that when the number of objects available exactly equals the number of "advantaged" bidders, revenues will be low in an ascending auction. Weaker bidders are reluctant to participate in the auction, and those that are present bid especially cautiously because of the enhanced "winner's curse" they face. We show that data from the main (1995, broadband) U.S. PCS auctions support these theories: ceteris paribus, revenues were lower when there were exactly two "advantaged" bidders among the bidders for the two licenses in an area, than when there were either fewer or more than two advantaged bidders. (Bidders were restricted to winning at most one license.) An alternative design might have avoided the problem with little efficiency loss and a revenue gain to the government of up to 15%.

(Paper is still in preliminary draft form.)