

Risk Aversion causes Overbidding in First Price Sealed Bid Auctions - Experimental Evidence

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Abstract

Bidding above the risk-neutral Nash Equilibrium in first price sealed bid auctions has traditionally been ascribed to risk aversion. However, no study so far found a causal relationship between risk aversion and overbidding. Recent studies even point toward other explanations arguing that risk aversion plays no or only a minor role. We implement a new experimental design to directly test the relationship by controlling the distribution of risk attitudes in auction markets. We find clear evidence that risk aversion causes overbidding, even if we control for regret aversion.

