
Hypothetical thinking and the winner's curse: An experimental investigation

Johannes Moser*¹

¹Universität Regensburg - UR (GERMANY) – Universitätsstr. 31, 93040 Regensburg, Germany, Germany

Abstract

There is evidence that bidders fall prey to the winner's curse because of mistakes in hypothetical thinking. I provide a lab experiment with two stages to investigate this relationship. In stage I the subjects participate in a non-standard common value auction called the wallet game in which a naive bidding strategy can lead to both: winner's curse and loser's curse. In stage II the subjects in the treatment group learn whether their initial bid was the winning bid or not with the possibility to change this bid. In this sense the bidders face the same decision problems as in stage I again but the need for hypothetical thinking is reduced in stage II. The overall pattern of the data suggests that the problem of winner's and loser's curse can be weakened by giving the subjects ex ante feedback about their bid, when both are regarded separately.

Keywords: Hypothetical thinking, winner's curse, common value auctions

*Speaker