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When Curiosity Kills the Profits:
An Experimental Examination

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Abstract

Economic theory predicts that in a first-price auction with equal and observable valuations, bidders earn zero profits. Theory also predicts that if valuations are not common knowledge, then since it is weakly dominated to bid your valuation, bidders will bid less and earn positive profits. Hence, rational players in an auction game should prefer less public information. We are perhaps more used to seeing these results in the equivalent Bertrand setting. In our experimental auction, we find that individuals without information on each other's valuations earn more profits than those with common knowledge. However, given a choice between the two sets of rules, approximately half the individuals preferred to have the public information. We discuss possible explanations, including showing that there is a correlation between ambiguity aversion and a preference for having more information in the auction.

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