

NON-TECHNICAL SUMMARY

“Does Feedback Really Matter? If so, Why and for Whom? Evidence from the FPA”

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This paper analyzes from an empirical perspective a very important market design question: Does the type of ex post market feedback that is provided affect market competition?

The focus of our study is a First Price Auction market. From a standard auction theory perspective the feedback bidders receive at the end of the auction should not influence bidders' bidding as it does not affect their profits from the auction. However, some existing studies (see the paper for details) find that different types of feedback give rise to more or less competitive bidding. This is important for market design purposes: if revenues for the seller can be increased by choosing the feedback appropriately, then we can advise the seller to do so as this is an easy and cheap thing to control. A lab experiment is an ideal setting to test whether feedback matters because we can have control of all the key elements of the auction and let only the feedback vary. The existing studies use very different settings that are therefore hard to compare. Furthermore, with exception of Filiz-Ozbay and Ozbay (2007), all the studies involve bidders playing in new auctions after receiving feedback. The fact that behavior is affected by the feedback that bidders experience is interesting and it may be explained by a learning direction theory as these studies propose (Ockenfels and Selten (2005), Neugebauer and Selten (2006)). However, for practical market design is less relevant because normally bidders do not play repeatedly the same type of auction. Interestingly, Filiz-Ozbay and Ozbay (2007) find an effect of feedback also when no further auction is played, suggesting that feedback might also work through anticipated regret. The result is somehow surprising as the studies on repeated bidding that also analyze the impact of feedback on the first round of play do not find any effect. Moreover, from a theoretical perspective anticipated regret alone cannot explain a role for feedback: what is needed is that feedback affects directly preferences by making loser regret more salient.

Our objective is to revise this important market design question and ascertain whether or not feedback matters when the auction is played only once. To do so we generate a large data set and we run both treatments in which the bidder compete against a computerized bid and treatments where the bidder competes against another human bidder. This to disentangle further effects that might be attributed to strategic considerations present only in the human human environment. We further analyze a treatment with four human bidders to check whether the level of competition has any bearing on the results, and finally we replicate Filiz-Ozbay and Ozbay (2007) study to check if the results are sensitive to the experimental protocol used.

Our results show a strong and robust evidence against the hypothesis that feedback affect average bid/value ratios. Thus, we conclude that while feedback might matter if experienced, it does not if it is not experienced. From a theoretical point of view, we argue that this is compatible with the fact that either bidders fail to anticipate potential regret when bidding, or that they do, but feedback fails to make loser regret more salient.