

THE EFFECT OF PUBLIC KNOWLEDGE ON HIGHWAY PROCUREMENT AUCTION BIDDING

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ABSTRACT

The revelation of information about the seller's value of an item may lead buyers to bid more aggressively, according to a number of studies in the theoretical auction literature. In the empirical literature, this widely recognized conclusion in auction theory is largely unproven. This impact may also be more apparent in auctions with more common cost uncertainty, according to recent theoretical work. The effect of an Oklahoma Department of Transportation policy change that resulted in the publication of the state's internal estimate of the costs to finish highway building projects is examined. We conduct a differences-in-differences analysis comparing bidding in Texas to bidding in Oklahoma, a state that had a consistent policy of disclosing the same information throughout the study period. Our findings indicate that following the change in engineers' cost estimate (ECE) regulation, the average bid in Oklahoma decreased in comparison to Texas auctions. This drop in bids was much more pronounced for projects with a higher level of cost uncertainty. Furthermore, following the change in ECE policy, the within-auction standard deviation of bids decreased, with the greatest decrease seen in projects with higher common cost uncertainty.

KEYWORDS: *Auction Bidding, Equilibrium Bidding, Economic Policy, Highways Procurement, Transportation.*

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