Contents

1 Introduction 1

2 Preliminaries 5
- 2.1 Notation 5
- 2.2 Bayesian Nash Equilibrium 6
- 2.3 Auctions as Games 9
  - 2.3.1 What is an Auction? 9
  - 2.3.2 Auction Types 10
  - 2.3.3 Auction as Bayesian Games 11

3 Private Values 13
- 3.1 The Independent Private Values Model 13
  - 3.1.1 First-price Auctions 14
  - 3.1.2 Second-price Auctions 18
  - 3.1.3 Revenue Equivalence 20
  - 3.1.4 Reserve Prices and Entry Fees 22
- 3.2 The Correlated Private Values Model 25
  - 3.2.1 Second-price Auction 26
  - 3.2.2 First-price Auction 27
  - 3.2.3 Comparison of Expected Payment 29
- 3.3 The Effect of Risk Aversion 32
  - 3.3.1 Revenue Comparison 33
- 3.4 The Discrete Valuation Case 34
- 3.5 Exercises 35

4 Common Value 39
- 4.1 An Example with Independent Signals 40
  - 4.1.1 First-price Auction 40
  - 4.1.2 Second-price Auction Example 42
- 4.2 An Example with Correlated Types 42
  - 4.2.1 First-price Auction 43
  - 4.2.2 Second-price Auction 45
- 4.3 The Symmetric Model with Two Bidders 46

4.3.1 Second-price Auctions 50
4.3.2 First-price Auctions 51
4.3.3 Revenue Comparison 54
4.4 Exercises 55

5 Affiliated Values **57**
5.1 The General Model 58
5.2 Second-price Auctions 63
5.3 First-price Auctions 65
5.4 English Auctions 67
5.5 Expected Revenue Ranking 68
5.6 Exercises 70

6 Mechanism Design **71**
6.1 The Revelation Principle 71
6.2 Direct Mechanisms 75
6.3 Revenue Equivalence and the Optimal Auction 79
6.4 Some Extensions 85
6.4.1 Non-monotonic Marginal Valuation 85
6.4.2 Correlated Values 97
6.4.3 Several Objects 111
6.4.4 Common Values Auction 113
6.5 Exercises 115

7 Multiple Objects **117**
7.1 Sequential Auctions 118
7.2 Simultaneous Auctions 120
7.2.1 Discriminatory Auctions 121
7.2.2 Uniform price Auctions 126
7.3 Optimal Auction 133
7.4 Exercises 139

8 What is Next? **141**
8.1 Distribution Hypotheses in Auction Theory 143

A Probability **151**
A.1 Probability Spaces 151
A.2 Uncountable Sample Space Case 153
A.3 Random Variables 154
A.4 Random Vectors and their Distribution 156
A.5 Independence of Random Variables 158
A.6 The Distribution of the Maximum of Independent Random Variables 158

A.7 The Distribution of the Second Highest Value 159
A.8 Mean Value of Random Variables 160
A.9 Conditional Probability 162

B Differential Equations 165
B.1 The Simplest Differential Equation 165
B.2 Integrating Factor 165

C Affiliation 167

D Convexity 171

References 175

Index of Notations 179

Index of Proper Names 181

Index 183