

Assessing the Effects of Introducing Auctions in the Primary Market for Government Bonds: Empirical Analysis

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Abstract

To examine whether auctions yield benefits for governments, this study compares government revenues between auctions and non-competitive selling formats using a policy change in the primary market for Japan's 10-year government bonds. In the analysis presented here, non-competitive selling formats are negotiations, which are two-agents bilateral bargaining and allow the abandonment of competition. The estimation results suggest that auctions generate the same government revenues as negotiations and bidders bid less aggressively. The results pose the question of whether bidders (implicitly) collude, although it is difficult to exclude the possibility that the results are caused by the relative strength of the winner's curse to the competition effect.

Keywords: competition effect, government bonds, multi-unit auctions, negotiations, (tacit) collusion, winner's curse

JEL Classification: D44, D82, G18

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