

An Experimental Study of Sponsored-Search Auctions*

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April 2011

Abstract

We study the Generalized Second Price auctions—a standard method for allocating online search advertising—experimentally, considering both the static environment assumed by the prevailing theory and a dynamic game capturing the salient aspects of real-world search advertising auctions. We find that subjects tend to overbid in both treatments relative to the Vickrey-Clarke-Groves outcome suggested as most plausible by the theory, but that their behavior in the dynamic game resembles the behavior in the static game. Our analysis thus lends support to the use of a static game as modeling proxy, but calls into question the prevailing equilibrium predictions.

JEL Classification: C92, D44, M3.

Keywords: online advertising, sponsored search auction, generalized second price auction, experiment.

*We are grateful to Jacob and Michelle Goeree, John Kagel, Dan Levin, Michael Ostrovsky, Michael Schwarz, and the participants at the Ohio State University, University of Zurich and the WCU Market Design Conference held at Yonsei University in August 2010, for valuable comments, and to Brian Wallace for writing the experimental program, and to Tom Rutter for helping us run the experiment. Che and Kim acknowledge the support by WCU program through the National Research Foundation of Korea funded by the Ministry of Education, Science and Technology (R32-2008-000-10056-0). Choi acknowledges the Economic and Social Research Council (UK) Grant No. RES-061-25-0348 and via the ELSE for financial support.

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