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Auctions and corruption: An analysis of bid rigging by a corrupt auctioneer

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In many auctions, the auctioneer is an agent of the seller. This invites corruption. We analyze a model in which the auctioneer orchestrates bid rigging by inviting a bidder to either lower or raise his bid, whichever is more profitable. The interplay between these two types of corruption gives rise to a complex bidding problem that we tackle with numerical methods. Our results indicate that corruption does not only redistribute surplus away from the seller, but also distorts efficiency. We furthermore explain why both, the auctioneer and bidders, have a vested interest in maintaining corruption.

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