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ARE DISADVANTAGED BIDDERS DOOMED IN ASCENDING AUCTIONS?

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A bidder is said to be advantaged if she has a higher expected valuation of the auction prize than her competitor. When the prize has a common-value component, a bidder competing in an ascending auction against an advantaged competitor bids especially cautiously and, hence, the advantaged bidder wins most of the time. However, contrary to what is often argued, a disadvantaged bidder still wins with positive probability, even if his competitor's advantage is very large and even if the disadvantaged bidder has the lowest actual valuation *ex-post*. Therefore, the disadvantaged bidder has an incentive to participate in the auction, and the presence of a bidder with a small advantage does not have a dramatic effect on the seller's revenue.

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