The Law of Small Numbers: Investigating the Benefits of Restricted Auctions for Public Procurement
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Discussion
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Economics of the PPPs.
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Aims and empirical strategy

Two research questions:
1. How does the public sector choose firms invited to bid?
2. How does this affect posted bids?

Two econometric models:
1. Probit  \( y: \text{firm is invited to bid (1/0)} \)
2. Two-step Heckman  \( y: \text{relative bid; log (bid)} \)
Data

• Restricted auctions by Paris Habitat-OPH (2006-2009)
• 180 contracts. 46,336 €/contract.
  3% of overall maintenance expenditure (2009)
  → need to provide more information to assess sample relevance.

• “Simple transactions, short term contracts”
  → relevant data when contract complexity is one of the main issues?
Determinants of inviting firms to bid: 3 hypotheses

1. *Firms that have a record of past failures are less likely to be invited to bid.*

   • Reputation as a means of avoiding opportunistic behaviour

   → But opportunistic behaviour also depends on the complexity of the project.

   → Could include complexity variables? contract value, types of activities (Bajari, McMillan, Tadelis, JLEO 2008)
Determinants of inviting firms to bid: 3 hypotheses (cont.)

2. **Being an experienced firm increases the probability of being invited to bid**

- Learning effect mitigates winner’s curse problem.
- Reduction of coordination costs: main effect, measured by value of previous contracts awarded by Paris Habitat employee.

→ Could this be reflecting capture by the firm?
→ Split the sample according to project complexity and test the effect of experience.
Determinants of inviting firms to bid: 3 hypotheses (cont.)

3. A firm that has won more important contracts in the past has a lower probability of being invited.

• Measured as share of contracts won by the firm
• Weakest empirical support from the data.

→ Contracts won at t / past and future pool contracts.
→ Other measures of contract importance: firm size? absolute value of previous contracts?