Security Design under Common-Value Competition

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Abstract :
This paper studies security design by bidders who bid for a common-value investment opportunity when information is dispersed. Out of a large space of securities, bidders offer debt financing, the security family with the lowest information sensitivity. First, a debt offer better protects a bidder against the winner's curse. Second, even if the entrepreneur is ex ante uninformed, by learning from the offers, the entrepreneur has an informational advantage when choosing among the offers. A debt offer wins more often when the entrepreneur's information is positive. The results are in stark contrast to security design by a monopolistic agent, as well as to DeMarzo, Kremer, and Skrzypacz (2005)'s result under private-value competition. If the entrepreneur has the commitment power to restrict offers to an ordered set, the entrepreneur does not benefit from it.