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Presentation Title

Corporate Bonds: Uniform Auction under Risk and Budget Limits

(with Dimitris Voliotis)

Abstract

This paper contributes to the debate on market design problems solved by optimal auctions. A perfectly divisible corporate bond is allocated to a set of bidders characterized by limits both to their budget, but most importantly to the risk entailed in their portfolio. Bidders possess symmetric information concerning the secondary market's yield. We choose to use a uniform pricing mechanism contrary to discriminatory as the former generates more revenues and reduces the winner's curse. As a first step, we prove the existence of symmetric Bayesian Nash equilibrium for risk-neutral bidders providing the necessary comparative statics. In the second stage, we confirm the existence of equilibrium when bidders' types are affiliated with the secondary market by a copula.

Keywords

Bond Market, Auctions, Market Structure, Market Design, Risk Limits, Budget Limits

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