

# Teaching an Old Dog a New Trick: Reserve Price and Unverifiable Quality in Repeated Procurement

by Alberto Iozzi | Gian Luigi Albano | Bernardino Cesi | Università di Roma Tor Vergata | Consip S.p.A. and LUISS Guido Carli University | Università di Roma Tor Vergata

Abstract ID: 85

Inviato: 15/04/2022

Evento: XX Workshop Annuale SIEPI

Argomento: 3. Concorrenza, antitrust e regolazione dei mercati

Parole chiave: public procurement, relational contracts, reserve price, unverifiable quality

*This paper shows that, in a repeated competitive procurement, a buyer can use the reserve price as a 'public' - hence non-discriminatory - punishment device to provide incentives for unverifiable quality provision. We study a model with many firms and one buyer, who is imperfectly informed on the firms' costs. In each period, the buyer runs a standard low-price auction with a publicly announced reserve price. When firms are ex-ante identical, the provision of quality is sustained by a sufficiently high reserve price to reward firms for quality provision and by the threat of reverting forever to a low reserve price if quality is not delivered. The buyer can elicit the desired level of unverifiable quality provided her baseline valuation of the project is not too high and the net benefit from unverifiable quality is not too low. When the levels of quality and of the reserve price are chosen to maximise the buyer's benefit, a higher number of competing firms may reduce the buyer's expected utility. These results are shown to be robust to firms' heterogeneity in their lifespan, when the punishment for a deviation is finite, but sufficiently long.*