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Best Article Award: Mantell

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The *Atlantic Economic Journal* is proud to announce that the winner of the Best Article Award is Edmund H. Mantell of Pace University. His paper entitled, "Rational Reserve Pricing in Sequential Auctions," appeared in the June 2013 issue of the *AEJ*. A distinguished committee reviewed all eligible papers published in that same year. The committee was chaired by IAES Vice President Charles Calomiris, Henry Kaufman Professor of Financial Institutions at Columbia Business School. Members of the committee included the *AEJ* Board of Editors and IAES Endowment Fund Sponsors. The Managing Editor gratefully acknowledges the participation and diligence of all committee members who participated in the review process. The award emphasizes the intellectual and scholarly approach to economic research which has always been a focal point of the *AEJ*.

This novel paper analyzes the management of risks faced by a rational seller of a durable asset in a series of sequential auctions. In this context, durability means that the attributes determining the asset's real monetary value are assumed to be temporally invariant. The seller contemplates risks with respect to the timing of the sale and the transactions price.

The seller makes it known to potential bidders that he will auction an asset at a specified future date. He solicits bids on or before the pre-determined date. The auction is not necessarily a sealed-bid protocol. The seller informs potential bidders that he reserves the right to not sell the asset if a bid at least as large as the undisclosed reservation price is not received. If not sold at the specified auction date, the asset is auctioned at a later date, subject to the same right-of-refusal with respect to the undisclosed reservation price. The paper explores two questions. First, how does a risk-neutral seller adjust undisclosed reservation prices in sequential auctions? Second, how do optimal adjustments of sequential reservation prices affect the transaction price?

Though there is a fairly large literature on the topic of bidder strategies in auctions, there is a paucity of published research addressing the question of intertemporal adjustments in sequential auction reservation prices. The absence of research is unusual

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because in sequential auctions, one of the few parameters the seller can control is the series of reservation prices.

The primary analytical result can be stated as a hypothetical proposition:

> "If a risk-neutral seller can estimate the probability density functions governing the largest bids at each future auction date, his optimal reservation price at each sequential auction is equal to the discounted expected value of the asset if it is not sold on that date and the reservation prices are the optimal prices for all subsequent auctions". (Mantell, AEJ 2013, pg. 154)

The optimal series of reservation prices displays a downward trend, consistent with the so-called "declining price anomaly" observed in transaction prices in sequential auctions. The general theory developed in this article can also be applied to other settings such as the initial public offerings of securities.