

Auction Versus Negotiation in Issuing Treasury Securities: Evidence from Japanese Government Bond Auction

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Abstract

Treasury bond selling mechanisms: Should the government use competitive bidding or negotiation to issue treasury securities? I consider revenue comparison and the determinants that influence revenue. I examine 10 year Japanese government bond market including auction and negotiation data set during the years 1984-2006. The analysis suggests that auction may be higher revenue and less underpricing than negotiation. However, bidders do not take the market information into consideration for their strategies in auction. They fall into winner's curse and insufficient bidding adjustment. This paper implies auction is fragile to uncertainty and market design.

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