Optimal Mechanism Design with Resale: An Ex-Ante Price Default Model*

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Abstract

This paper investigates the optimal ex-ante price mechanism design of selling an indivisible object to one public known buyer or one regular buyer, where resale and default cannot be prohibited. The using valuation of every buyer varies with shock which is unrevealed in ex ante. The seller holds resale opprotunity if the winner is liquidated. As a result, we find that in the optimal mechanism, the regular buyer will obtain the object in the initial market when buyers have limited liability, whereas he will become the loser under unlimited liability. Suppressing, through the inter-buyer resale, the seller doesnot need to provide any additional compensation that urges the regular winner to remain solvent. If the seller is bankruptcy loving, we show that due to the costly bankruptcy, she prefers the inter-buyer resale, which will create risk-sharing opportunities to reduce the possibility of facing default.

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