Discussion Questions on Texas CD Auctions

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Explaining the bidding behavior of the banks

- The figures show that roughly speaking that banks make bidding forays at different times. If they have not previously bid (or are OUT), when they (re)enter the bidding, they raise the interest rate offer by small increments until they either stop altogether or hit ONM; then they jump and end their forray. Later on they might reenter if they are pushed OUT because the ONM rate has risen in the meantime. Why do they:
  1. creep up to ONM from OUT?
  2. jump off the ONM to INM?

No time limit on the auction

- Suppose the auction does not conclude until the Texs government has confirmed that no bank currently OUT wants to increase their bid. If for example one bank wants to raise its interest rate to be INM when it was previously OUT, causing the ONM rate to rise and displacing some other rival banks' bid, the auction continues, and the auctioneer has to check with everyone again once bidding seems to have stopped.
  1. How should each bank bid during the auction?
  2. How are the interest rates paid by the winning banks related to each other?

Each bidder can make a final bid at the end of the auction

- Now suppose the auction lasts only 30 minutes and banks have limited opportunities to bid. That is, each bank can only make a bidding foray at sporadic random times. However each bank that has made at least one bid during the auction is permitted to make one final bid right at the end of the auction.
  1. How should each bank bid?
  2. In a discriminatory price sealed bid (DPSB) auction banks simulataneously submit one bid to the auctioneer, and winning banks pay the bid the bids they submitted. How does your answer to the previous question compare with optimal bidding in a DPSB auction?
  3. Compare the final bid of a bank in a DPSB with the final bid it would make in an auction with no time limit.