

Classroom Games

# Corporate Takeover and the Buyer's Curse

Jacob K. Goeree, Charles A. Holt, Julie Lerner, Deniz Selman\*

## Abstract

This paper presents a simple classroom game in which student compete to bid on a corporation for sale. In this experiment, the students know prior to bidding the amount of “value added” their new management capabilities will provide. The risk is that the bidder does not know precisely the base value of the firm under its current management, and only firms with base values below the takeover bid will be sold. Thus the bidder may pay more than a firm is worth under new management, which is known as the "buyer's curse." This exercise can be used to motivate discussions about naïve versus strategic bidding, rational behavior, and the effects of risk.

Keywords: Buyer's curse, value added, takeover, bid, experimental economics, classroom experiments

---

\* Department of Economics, University of Virginia, Charlottesville, VA 22903. Jacob Goeree and Charles Holt are on the faculty, and Julie Lerner and Deniz Selman are economics majors. This research was funded in part by the National Science Foundation (SBR 9617784, SBR 9818683, and a Research for Undergraduates Supplement).