Security Design Under Common-Value Competition
(by Yue Yuan)

This paper studies bidders' security design when they compete for a common-value investment opportunity. Out of a wide range of securities, bidders offer debt financing, the security family with the lowest information sensitivity. If the entrepreneur has superior information, bidders choose debt because a debt offer wins more often when the project quality is higher. If the entrepreneur is uninformed, bidders' choice of debt is driven by the presence of informed competitors. First, the entrepreneur can infer about the project quality from bidders' offers. A debt offer wins more often when the entrepreneur's belief is better. Second, a debt offer better protects a bidder against the winner's curse. The result is in stark contrast to security design by a monopolistic agent, as well as to DeMarzo, Kremer, and Skrzypacz (2005)'s result under private-value competition.