The Winner's Curse in a Takeover Game with Two-Sided Asymmetric Information: Theory and Experiments*

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September 27, 2025

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Abstract

This paper examines how *cursedness*—the tendency to neglect how other people's strategies depend on their private information—affects trade in a takeover game with one buyer and one seller. I apply the Cursed Sequential Equilibrium concept, showing that information transmission and allocative efficiency depend on the degree of information asymmetry and the size of the stakes. Finally, this paper presents two experiments to test the model predictions and investigate whether experience in different roles impacts cursed behavior.

JEL Classification Numbers: C72, D82, D9

Keywords: Takeover Game, Cursed Sequential Equilibrium, Adverse Selection

*I would like to thank Charles Holt and Po-Hsuan Lin for their constant guidance and mentorship. I am also grateful for helpful comments from Simon Anderson, Colin Camerer, Vincent Crawford, Catherine Eckel, Maxim Engers, David Owens, and audiences at the University of Virginia, the 2nd European Economic Review Summer School in Experimental and Behavioral Economics, and the Behavioral and Experimental Economists of the Mid-Atlantic (BEEMA9). All errors are my own.

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