

Thailand's 4G Auction

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In December 2015, Jasmine International (JAS: SET) and True Corporation (TRUE: SET) won the auction for the 900MHz (4G) licenses at world record prices of THB 75.65 billion and THB 76.30 billion respectively. The auction lasted for 5 days and is the second priciest in terms of price per MHz per head.

However, it seems that they *may* soon suffer from the Winner's Curse which occurs when the winning bid exceeds the intrinsic value of the item purchased thus leaving the auction 'winner' worse off in absolute terms.

It is to be seen whether Jasmine and/or True will renege or will they be able to secure the necessary funding.

Jasmine's current market cap is THB 22 billion and it plans to borrow an additional THB 76 billion to pay for the license. This could spell trouble for its capital structure.

Huge debt, we were told, would cause operating managers to focus their efforts as never before, much as a dagger mounted on the steering wheel of a car could be expected to make its driver proceed with intensified care. We'll acknowledge that such an attention-getter would produce a very alert driver. But another certain consequence would be a deadly – and unnecessary – accident if the car hit even the tiniest pothole or sliver of ice. The roads of business are riddled with potholes; a plan that requires dodging them all is a plan for disaster.

- Warren Buffett

An auction is a very interesting social setting whereby several psychological biases are acting in the same direction. I list them below:

1. Incentive caused bias – the higher the price at which the object is sold, the more money made by the auctioneer
2. Authority bias – the auctioneer is a symbol of authority who certifies the authenticity of the object being auctioned
3. Anchoring bias – the auctioneer sets an initial price which serves as an 'anchor'

4. Social proof – other bidders bidding up the price convinces us that the last price was reasonable
5. Deprivation super reaction – the object is going away which prompts us to top the last bid
6. Reciprocation tendency – results in competitive bidding
7. Low contrast effect – every new bid is a small increase over the previous bid
8. Commitment and consistency bias – every bid is a public commitment

An auction is designed to manipulate people into irrational behaviour. The rule is: Don't Go.