The existence of collusion in the market enhances the monopoly power and damages the consumer surplus. This paper explores two types of collusion:

- collusion between local governments and firms, namely corruption
- collusion among firms, namely cartels

Collusion among firms has been a potential issue.

This paper leverages a unique nationwide dataset of China’s land market auction and an unprecedented anti-corruption campaign to establish the presence of these two types of collusive behavior.

In China, local governments are “auctioneers”.

- A real estate project needs approvals from 166 government departments (180 officials). – China Daily, 2013
- Land Transfer and construction are the top two sectors where bribery is most prevalent. – Chen and Kung, 2018

Collusion among firms has been a potential issue.

- Firms communicate about prices and seek cooperation before the auction. – 21jingji.com, 2020
- More and more illegal collusion cases are found in China’s land market. – pkulaw.com

**Introduction**

**Motivation – Why China?**

**Data**

- **Land Data**
  - ex-ante land parcel characteristics (i.e., auction format, starting price, security deposit, land address, land area)
  - ex-post transaction outcomes (i.e., successful or not, final price, winning bidders)

- **Firm Data**
  - firm characteristics (i.e., winning firm’s registered capital, address)

- **City Data**
  - city characteristics (i.e., anti-corruption campaign results)

**Empirical Methods**

**Corruption – Event Study Design (DID)**

- Leveraging the exogenous variation brought by China’s anti-corruption campaign, I examine whether the adoption of a certain auction setting changes during the campaign.

**Firm Collusion**

- Using a firm pair’s location distance to measure their closeness, I check whether the closer they are, the closer the date they won the land.

**Results**

**Conclusion**

- This paper establishes that corruption and cartel behavior is present in China’s land market auction.
- The English auction is superior to the two-stage auction for the authorities – it produces a 12.1% higher price.
- The security deposit rate could be a useful policy instrument – it has the potential to affect the auction price.

**Selected References**