



Incompetence and corruption in procurement auctions

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Abstract

This paper analyzes the impact of incompetence and corruption in procurements. The government conducts a procurement auction where a firm that quotes the lowest bid wins the contract to construct a public good (subject to the fulfillment of the minimum quality requirement). Incompetence leads to measurement errors. There is also corruption in the system: if the measured quality falls short of the minimum stipulated level, the firm can pay a bribe to inflate the reported quality. We show that higher levels of corruption parameters unambiguously reduce the actual quality produced and the expected welfare. The effects of greater incompetence are more complicated. We show greater incompetence may lead to an increase in both equilibrium quality and welfare. This is counter-intuitive and goes against conventional wisdom. We also demonstrate that the winning firm chooses a quality that is strictly lower than the welfare-maximizing quality.

Keywords Procurement · Incompetence · Corruption · Bribe

JEL Classification D44 · H57 · L13

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