

# ON THE BENEFITS OF SET-ASIDES

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**Philippe Jehiel**

Paris School of Economics (Ecole des  
Ponts, ParisTech) and University College  
London

**Laurent Lamy**

CIRED (Ecole des Ponts, ParisTech)

## **Abstract**

Set-asides programs which consist in forbidding access to specific participants are commonly used in procurement auctions. We show that when the set of potential participants is composed of an incumbent (whose entry costs are already sunk) and of entrants who show up endogenously (in such a way that their expected rents are fixed by outside options), then it is always beneficial for revenues to exclude the incumbent in the Vickrey auction. This exclusion principle is generalized to dominant-strategy auctions that favor the incumbent in the sense that the incumbent would always get the good when valuing it most. By contrast, set-asides are not desirable if the incumbent's payoff is included in the seller's objective in the Vickrey auction, and more generally it is detrimental to exclude a bidder that is not favored. (JEL: D44, H57, L10, L40)

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E-mail: [jehiel@pse.ens.fr](mailto:jehiel@pse.ens.fr) (Jehiel); [laurent.lamy78@gmail.com](mailto:laurent.lamy78@gmail.com) (Lamy)