

## Generalized Right of First Refusal and Endogenous Participation in Procurement Auctions

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### Abstract

This paper examines discrimination in a procurement auction where the non-favoured firm suffers a higher cost of participation compared to the favoured firm and argues that discrimination in favour of a firm suffering a lower participation cost is optimal. Moreover, discrimination in the form of Generalized Right of First Refusal (M-RoFR) is proposed under which the favoured firm wins the auction if and only if it betters the bid of its rival, non-favoured firm by some pre-announced proportion. I show that M-RoFR fairs better than the RoFR as it provides better odds of the non-favoured firm entering the auction (thus, better odds of the sale of the contract), a higher probability of win for the favoured firm (thus aligning with the objectives of granting a favouritism policy in the first place), and above all, it can be observed as maximizing the expected utility to the buyer.

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