

Abstract: We empirically investigate the differential impacts of two contractual formats, called Fixed-Price contracts (FP) and Unit-Price contracts (UP), on firm behavior and contract outcomes in procurement auctions. To deal with the procurer's selection of contract formats, we exploit exogenous variation in (i) procurer's backlog level, and (ii) state dependence in the use of the two contract formats. We estimate that FP would reduce the winning price bid by more than 20%, and reduce the likelihood of participating in an auction by 6% relative to UP for the projects with medium level of project risk. We embed FP and UP in a model of bidding for a contract, capturing the tradeoff between moral-hazard and the risk-sharing effect. We show that the model is semiparametrically identified. A simulation result suggests that switching from UP to an incentive contract would reduce the cost of procurement by X%.