David Youngberg

Econ 280—Bethany College

**Lecture 13: Auctions I**

1. Types of auctions
   1. There are four basic types of auctions. We will explore extensions next class. For now, let’s master these types of auctions.
   2. *English auction*—The price starts low and buyers compete by offering and counter-offering higher and higher prices. The highest price wins.
   3. *Dutch auction*—The price starts high and is gradually lowered. The winner is the first person to take the price.
   4. *1st price, sealed-bid auction*—bidders secretly write their bids on a piece of paper and the highest offer wins; the high bidder pays the amount of the high bid
   5. *2nd price, sealed-bid auction*—bidders secretly write their bids on a piece of paper and the highest offer wins; the high bidder pays the amount of the ***second-highest*** bid
2. Strategy
   1. If you’re bidding you may want to cut down the bid to try to pay a lower price. But if you cut your bid, you might lose. When is it a good idea to bid your maximum willingness to pay and when it is good to shave your bid?
   2. Bid at your max:
      1. *English auction*. Obviously, you don’t immediately jump to your maximum but you should keep bidding until the price exceeds your value.
      2. *2nd price, sealed-bid*. Since you pay the same amount if you cut your bid a little, a lot, or not at all, it’s best to bid your value to maximize the likelihood of winning.
      3. Note in both cases, the winner pays the second-highest valuation.
   3. Bid below your max:
      1. *Dutch auction*. You’ll never get any consumer surplus if you pay as soon as the bidding reaches your value. There’s an incentive to “shave” when you accept the price.
      2. *1st price, sealed-bid*. For similar reasons, you want to big less than your maximum bid because that’s the only way to get a deal.
      3. In both cases the more bidders, the less you want to shave off from your bid because more bidders increase the chance someone will outbid you.
3. Review