

Auctions

- * Markets in which products are bought and sold through a formal bidding processes
- * Advantages of auctions:
 - Price discovery

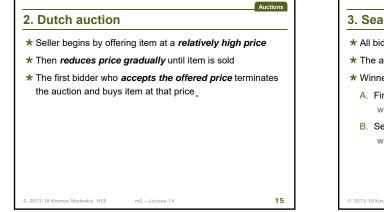
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- ◆ Encourage competition that increases seller's revenue
- Low cost of transactions
- Useful for *unique items* or those with *fluctuating value*

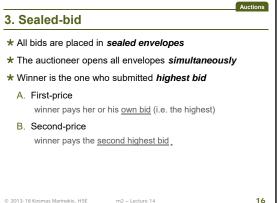
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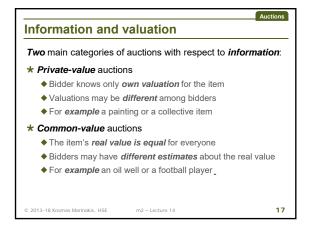
There are 3 main auction formats
English – Dutch – Sealed-bid

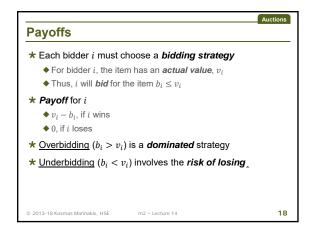




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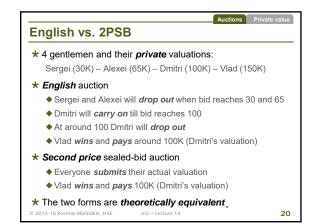
Auctions Private value How should a gentleman bid?

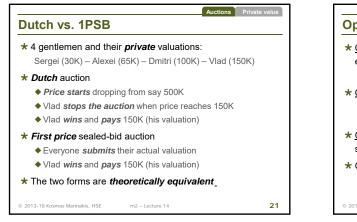
- A charity date is auctioned at a fundraiser Julia offers a night out for dinner and a movie to the gentleman who will donate the most to an orphanage
- Bidding truthfully is dominant strategy you want neither to overpay nor to risk losing
- ★ English auction strategy bid toward your valuation hoping that all others will quit before

Dutch auction strategy
jump in when price drops at your valuation

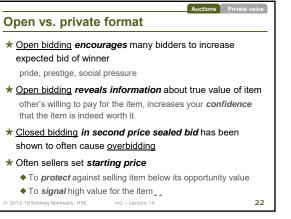
★ Sealed-bid auction strategy submit your actual valuation

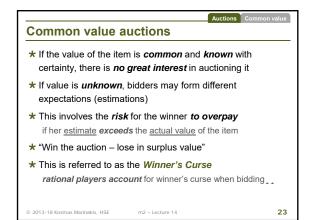
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